

FINANCIAL TIMES

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Bundesbank 'at fault for currency crisis'

The Bundesbank was partly to blame for September's turbulence in the currency markets, following its controversial decision to increase interest rates in July, said Ulrich Cartellieri, a main board director of Deutsche Bank, Germany's largest bank.

Mr Cartellieri, the board member responsible for economics, said the market judged that other countries would be unable to follow suit and investors had behaved accordingly. Page 14: 'The EMS will not die' declares Bonn, Page 2

Greater military action urged in Bosnia

Western European countries should take stronger military action over the Bosnian crisis, said Wim van Eekelen, secretary-general of the Western European Union. He said the UN operation "has probably reached its limits, as far as peace-keeping is concerned". Page 14: EC accuses

Greeks over Serb boycott, Page 3

S Africa cancels talks: The South African government said it was cancelling planned talks with the ultra-radical Pan Africanist Congress until the group distanced itself from attacks carried out by its armed wing, the Azanian People's Liberation Army. Page 4

German farmers protest: Up to 50,000 German farmers, many driving tractors, swamped Bonn to express their anger over the European Community's trade deal with the US to curb oilseed production as part of the General Agreement on Tariffs and Trade talks.

Alitalia, the Italian state airline, is poised to acquire a minority stake in Malev, the Hungarian carrier, against stiff competition from Lufthansa of Germany. Hungarian government officials indicated. But a last-minute push by Lufthansa cannot be ruled out. Page 15

Skandia, the leading Swedish insurance group, has emerged as a potential bidder for the core life and non-life operations of Hafnia, the troubled Danish insurer which suspended payments to creditors in August. The group has ambitions to achieve a 30 to 25 per cent market share in Scandinavia. Page 15

Venezuela coup arrests: A Venezuelan court martial ordered the arrest of 240 civilians and soldiers who will be tried for their part in the November 27 coup attempt.

Parisian transport flops: Paris's first experiment with privately run mass transport flopped when the backers of Orival, a driverless automatic train, admitted they would have to write off FF1bn (\$187m) of debts and hand control of the loss-making line to the state. Page 16

Gaidar retreats on oil: Russian acting prime minister Yegor Gaidar signalled a retreat from a main element of his economic reforms, announcing that domestic oil prices would remain below world levels for a long time to come.

Germany to cut car outputs: Three big German carmakers announced wide production cuts early next year in an attempt to reduce stocks and avoid further job losses. Page 2

Oil prices: Oil prices resumed their slide in late London trading after a senior UN weapons inspector said Iraq might be willing to co-operate on providing details of the supply network for its nuclear programme, currently an obstacle to the UN lifting sanctions on Iraq, including its oil exports.

Intifade to grow: Yasser Arafat, Palestine Liberation Organisation chairman, pledged to step up the five-year-old intifada, the uprising against Israel, in which more than 1,000 people have died, and promised more confrontations with Israeli soldiers.

Plutonium smugglers arrested: Police in Germany and Austria have smashed a ring dealing in smuggled plutonium from the Ukraine and arrested 15 people. It was the latest police action against a growing illegal trade in nuclear materials smuggled into Western Europe from former Soviet republics.

Last blast at oldest copper mine: The last explosive charge to loosen ore in Falun, Sweden, was detonated, in preparation for closure of the world's oldest copper mine by Stora Kopparbergs Bergslags before the end of 1992.

STOCK MARKET INDICES		STERLING	
FT-SE 100	2,788.0 (+15.3)	New York Composite	1,597
DAX	1,442 (+4.1)	London	1,597 (1,587.5)
FT-SE Euroshare 100	1,860.1 (+1.5)	DM	2,497.6 (2,497.6)
FT-A All-Share	1,244.54 (+0.58)	FF	8.48 (8.485)
Nikkei	17,281.85 (+7.73)	Sfr	2,225 (2,222.5)
New York Composite	1,597 (+1.7)	Y	198.4 (197.5)
Dow Jones Ind Ave	3,385.16 (+2.17)	K index	81.4 (81.2)
S&P Composite	434.82 (+0.49)		
US LUNTIME RATES		DOLLAR	
Federal Funds	2.75%	New York Composite	1,597
3-mo Treas Bill	3.322%	DM	1,597.6 (1,597.6)
Long Bond	10.8%	FF	8.485 (8.485)
Yield	7.449%	Sfr	2,225 (2,222.5)
LONDON MONEY		Y	
3-mo interbank	7.14% (7.14)	K index	81.4 (81.2)
Life long gth bid	108.5 (108.5)		
NORTH SEA OIL (Averages)		DM	
Brent 15-day (Jan)	\$18.825 (18.15)	DM	1,597.6 (1,597.6)
WTI	\$18.825 (18.15)	FF	8.485 (8.485)
New York Crude (Dec)	\$23.4 (23.11)	Sfr	2,225 (2,222.5)
London	\$23.4 (23.11)	Y	198.4 (197.5)
		K index	81.4 (81.2)
Austria	Sch20	Greece	D150
Belgium	D150	Hungary	F112
Denmark	D150	Ireland	Nr100
France	D150	Italy	Nr100
Germany	D150	Japan	Nr100
Greece	D150	Norway	Nr100
Hungary	D150	Poland	Nr100
Ireland	D150	Portugal	Nr100
Italy	D150	Spain	Nr100
Japan	D150	Sweden	Nr100
Norway	D150	Switzerland	Nr100
Poland	D150	Taiwan	Nr100
Portugal	D150	Thailand	Nr100
Spain	D150	Turkey	Nr100
Sweden	D150	USA	Nr100
Switzerland	D150	UK	Nr100
Taiwan	D150	USSR	Nr100
Thailand	D150	Yugoslavia	Nr100
Turkey	D150		
USA	D150		
UK	D150		
USSR	D150		
Yugoslavia	D150		

Rejection by Britain and Denmark 'will not stop the construction of Europe'

Mitterrand firm on EC union

By Andrew Gowers and David Buchanan in Paris

TEN OUT OF 12 European Community member states are determined to press ahead with implementing the Maastricht treaty on European union, whether or not Denmark and Britain join them in ratifying the accord next year, President Francois Mitterrand of France said yesterday.

In an interview with the Financial Times, Mr Mitterrand insisted that the treaty would neither be renegotiated nor amended to secure Denmark's acceptance in a second referendum next year. He also claimed to have the support of a majority of other member states for this view.

"Rejection by the countries in question [Britain and Denmark]

will not stop the construction of Europe... The old Europe of the Six plus Portugal and Spain find themselves completely on the same wavelength," he said. Ireland and Greece have also ratified the treaty. "We can't make an agreement minus a single currency, minus the central bank, minus a common foreign policy," Mr Mitterrand said it would be legally possible to adapt the treaty - "not in substance but in form" - to exclude Denmark in the event of another rejection by Danish voters. As for Britain, he added, "I do not despair at all of seeing Great Britain adhere to the treaty that the head of its government signed."

While he refrained from comment on Britain's latest proposals for dealing with Danish objections to Maastricht, the French president's remarks signal a

■ EMS will not die says Bonn
■ European jobsless up 1.3m
■ Leniency urged on VAT rules
■ Gambler's crowning glory

hardening of tone on this central question ahead of Friday's Edinburgh summit. They seem intended in part to increase the pressure on Mr John Major, the UK prime minister and current EC president, to speed up ratification of the treaty in Britain's parliament, rather than waiting for the outcome of another Danish vote in May or later. Such pressure, however, may complicate Mr Major's efforts to muster consensus at Edinburgh while struggling with his own backbench rebels, whom he has

assured that he will delay completing ratification until after a second Danish vote. Mr Mitterrand said it would not be "catastrophic" if British ratification took another four months from now, but that Britain should not make its decision hinge on that of another country. Also in the interview, Mr Mitterrand: ● Expressed determination to resist pressure from his European partners over the recent EC-US deal on farm trade. He said he did not expect the issue to come up at Edinburgh, as negotiations on an overall settlement in the Uruguay round of the General Agreement on Tariffs and Trade were still continuing. He said France still wanted a reopening of negotiations on agriculture with Washington. If there were no concessions on farm

trade, however, he said France would have to act with "great firmness" - while refusing to be drawn on whether it would ultimately use its veto. ● Reaffirmed his determination not to devalue the French franc, which has been under sporadic but heavy pressure in recent weeks. "Devaluation has never been considered a good policy," he said. "France's economic indicators are the best at the moment within the EC." ● Said he did not see the need to move the franc to a narrower band of fluctuation within the European Monetary System, but that the idea was "for discussion." ● Renewed his backing for a "European growth initiative" involving the acceleration of large EC infrastructure projects.

Hopes rise for answer to Danish question

By Lionel Barber and David Gardner in Brussels and Ivo Dawid in London

EUROPEAN Community foreign ministers yesterday made progress on resolving Denmark's difficulties with the Maastricht treaty on European union, raising hopes of a solution at this week's summit of EC leaders in Edinburgh.

A solution allowing Denmark to put the treaty to a second referendum is seen as the lever to reach agreement on the main differences affecting the Community, notably the budget, enlargement and decentralised decision-making.

Foreign ministers from several member states, during a meeting in Brussels, raised reservations about a UK draft allowing Denmark legally binding opt-outs from the Maastricht treaty. Italy, Spain, and Germany - acting on legal advice - suggested that the UK paper amounted to a new treaty.

But Mr Douglas Hurd, UK foreign secretary, said the community "should never leave its fate to lawyers". Mr Uffe Ellemann-Jensen, Danish foreign minister, agreed: "I am sure legal doubts can be dealt with after today's discussion, after that it is a matter of political will."

The "conclave" of EC foreign ministers in Brussels was the last high-level gathering of the Twelve aimed at salvaging the Edinburgh summit, which many member states were virtually writing off as doomed to failure. At the same time, though, it was announced that Mr John Major, UK prime minister, is to hold an unscheduled eve-of-summit dinner with President Francois Mitterrand in Edinburgh tomorrow night.

The surprise meeting, agreed in a telephone call between the two leaders yesterday, comes after British officials had repeatedly stressed that no such encounter was necessary due to the close regular contacts between Paris and London. Nonetheless, Mr Major's failure to visit the Elysee Palace on

Continued on Page 14

Hindu political leaders arrested after riots

By Shiraz Sidhwa and Stefan Wagstyl in New Delhi

THE LEADERSHIP of India's rightwing Hindu Bharatiya Janata Party was arrested yesterday for allegedly instigating riots, the death toll from which rose by 180 to more than 400 since Monday night.

Mr P.V. Narasimha Rao, the prime minister, made some headway in his efforts to calm the crisis, caused by the destruction by Hindu militants of a mosque in the northern town of Ayodhya. Government officials took comfort from the bloodless capture of the disputed site by paramilitary police at dawn. However, communal frenzy continued unabated in six states.

Police firing and street clashes between Hindus and Moslems brought Bombay and many parts of Maharashtra state to a halt, with 65 more deaths yesterday, taking the toll to 124. In nearby Gujarat, 11 more people died yesterday, raising the death count in the state to 72. The army, which was called out in some Indian states on Monday, continued to be deployed in Uttar Pradesh, where Ayodhya is located, and in parts of Madhya Pradesh.

Five leaders of the Hindu BJP, including Mr L.K. Advani, opposition leader, and Mr Murali Manohar Joshi, the party president, were arrested. This move, together with the government's restored control of the disputed site, and an assurance by Mr Rao that a mosque would be rebuilt alongside a temple in Ayodhya, provided temporary respite to the government, which has been criticised for its inability to avert Sunday's events.

Political tensions remained

high as the BJP, which had organised the rally that led to the mosque's destruction, warned of a Hindu backlash if a mosque was reconstructed on the site they believe is the birthplace of the god Ram.

The BJP and its allies, the Vishwa Hindu Parishad and the Rashtriya Swayam Sevak Sangh, pledged to fight the plan. The Hindu parties also promised to campaign for mosques on other disputed sites to be returned to Hindus. Defiant BJP MPs called a nationwide strike today to protest against the arrest of their leaders, claiming no responsibility for the communal carnage their actions had precipitated.

Mr Rao vowed to uphold the rule of law even if it meant being "in wilderness or sitting in opposition". He announced a commission of inquiry led by a High Court judge to investigate events leading to the illegal destruction of the mosque. Several opposition party and Congress (I) MPs believe the destruction of the mosque on Sunday was "no accident", but a "carefully planned coup by Hindu organisations".

Ayodhya itself remained calm, with thousands of devotees leaving the town before noon. Indian Moslem leaders appealed to Moslems around the world to avoid violence, including attacks on Hindu temples.

Arban Bokhari adds from Islamabad: At least 20 people were killed as demonstrations against the demolition of the mosque took place across Pakistan yesterday and the country observed a day of mourning.

In the capital, Islamabad, police fired teargas to disperse a crowd which was trying to break through a security cordon at the



Pakistani Moslems destroy the dome of a Hindu temple with pickaxes in an old quarter of Lahore in retaliation for the razing of the 16th century Babri mosque in the northern Indian town of Ayodhya

Indian high commission. In Bangladesh, at least six were killed and more than 500 injured as groups clashed during a general strike.

Turmoil upsets business, Page 4
UK Hindus and Moslems, Page 8
Editorial Comment, Page 12

Deutsche Bank down 5% in worse than expected result

By David Waller in Frankfurt

DEUTSCHE BANK, Germany's largest bank, yesterday reported a 5 per cent fall in group operating profits for the first 10 months of the year.

The result was worse than analysts' expectations and contrasted sharply with the robust figures Deutsche's competitors have reported in recent days. It prompted Deutsche's share price to fall by DM13.9 to DM653.1, helping to drag the DAX index of 30 leading German shares down by 17.06 to 1,508.24 in nervous trading.

Total operating profits fell from DM5.20bn to DM4.94bn (\$3.1bn) while partial operating profit, which excludes the bank's own account trading, dropped by 3.3 per cent to DM5.96bn. The fall contrasts with reported growth of 16.6 per cent in total operating profits at Dresdner, Germany's second biggest bank; 13.3 per cent at Commerzbank, the third largest bank; 13.2 per cent at the Bayerische Hypoth-

eken und Wechsel-Bank; and more than 20 per cent at Bayerische Vereinsbank.

At a news conference in Frankfurt, Mr Hilmar Kopper, Deutsche's chief executive, brushed aside the comparison with competitors, saying net profits for the full year would be at least as good as they were last year. He noted that Deutsche Bank's profits were bigger than those of its next three competitors put together, and insisted that the relative strength of the bank would become clear at the full-year stage, after provisioning for bad debts. Last year net profits rose from DM1.07bn to DM1.1bn while operating profits rose 16 per cent to a record DM5.97bn. A fall in profits was expected after Deutsche's interim profits fell 3.2 per cent after six months. The bank said then that its size meant it felt the slowdown of the German economy earlier than its competitors.

Mr Kopper went into more detail yesterday, blaming a shift in revenue mix toward lower

margin interbank business for the profits fall. Other factors were lower trading profits and the appreciation of the D-Mark against other currencies, especially sterling. Analysts said another reason was a lower return on bank lending to eastern Germany.

Total credit grew by 5.7 per cent to DM316.7bn, while net interest income rose 4.2 per cent to DM9.10bn; net interest margins dropped by 10 basis points to 2.31 per cent. Commission income rose 7.2 per cent to DM3.38bn. Analysts took some heart at a reduction in expenses growth. For the 10 months, total expenses rose 9.6 per cent to DM8.51bn, whilst over the whole of last year they grew at 18.4 per cent.

Mr Kopper said staff numbers would probably drop by 1,000 during the year and by a similar amount next year.

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World stocks, Sect II

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NEWS: EUROPE

German motor industry in big production cut

By Christopher Parkes
in Frankfurt

THE German motor industry yesterday announced sweeping production cuts early next year in a bid to reduce stocks and avoid further job losses.

Audi, the up-market Volkswagen subsidiary, said about 25,000 of its 37,500 workers would be put on short-time for three weeks during the first quarter of 1993.

Mercedes-Benz announced 14 days' short-time working at its four German car assembly plants in January and February, and up to 40 days at three components factories.

Most of the group's 95,000 car workers are likely to be affected.

Meanwhile, Volkswagen said that up to 14,000 of the 18,000 workers employed at its Hanover works would be sent home for a week during January.

All three companies have already announced plans for large-scale job cuts over the next two or three years.

They have also decided to extend Christmas holidays in most of their factories.

The latest announcements - short-time working in Germany effectively means stopping production - reflect the recent rapid deterioration in domestic markets and continuing recession abroad.

However, there are suggestions that workforce reductions, both planned and executed, may not be enough to

counter the effects of recession. Mercedes, for example, has already shed 12,500 workers in the past 12 months.

Short-time working is commonly introduced as an interim measure to balance supply and demand, but in many manufacturing industries hit by the current downturn, it has become a prelude to job losses.

Audi, which recently unveiled plans to reduce its workforce by 10 per cent, said the latest move was "a reaction to the continuing order weakness in the domestic and important European export markets".

There were also unconfirmed reports yesterday that Ford Werke, the German subsidiary of the US vehicle maker, was headed for its first loss in six years and planned to shed up to 3,000 workers.

According to some estimates new car registrations in Germany will fall by 500,000 next year.

Industry analysts have forecast a 5 per cent fall in western European demand next year, although Ford and Mercedes both hope to regain some ground with important launches of new or revamped models.

BMW, which till benefiting from the impact of its new 3-Series models, said that short-time was out of the question.

The group recently announced proposals for the loss of 3,000 jobs next year.

Plea in Bonn over 'foreigners'

By Judy Dempsey in Bonn

THE younger generation of foreigners living in Germany must be given easier access to citizenship as a means of fully integrating them into German society, Mrs Cornelia Schmalk-Jakobsen, head of the federal department for the problems of foreigners, said yesterday.

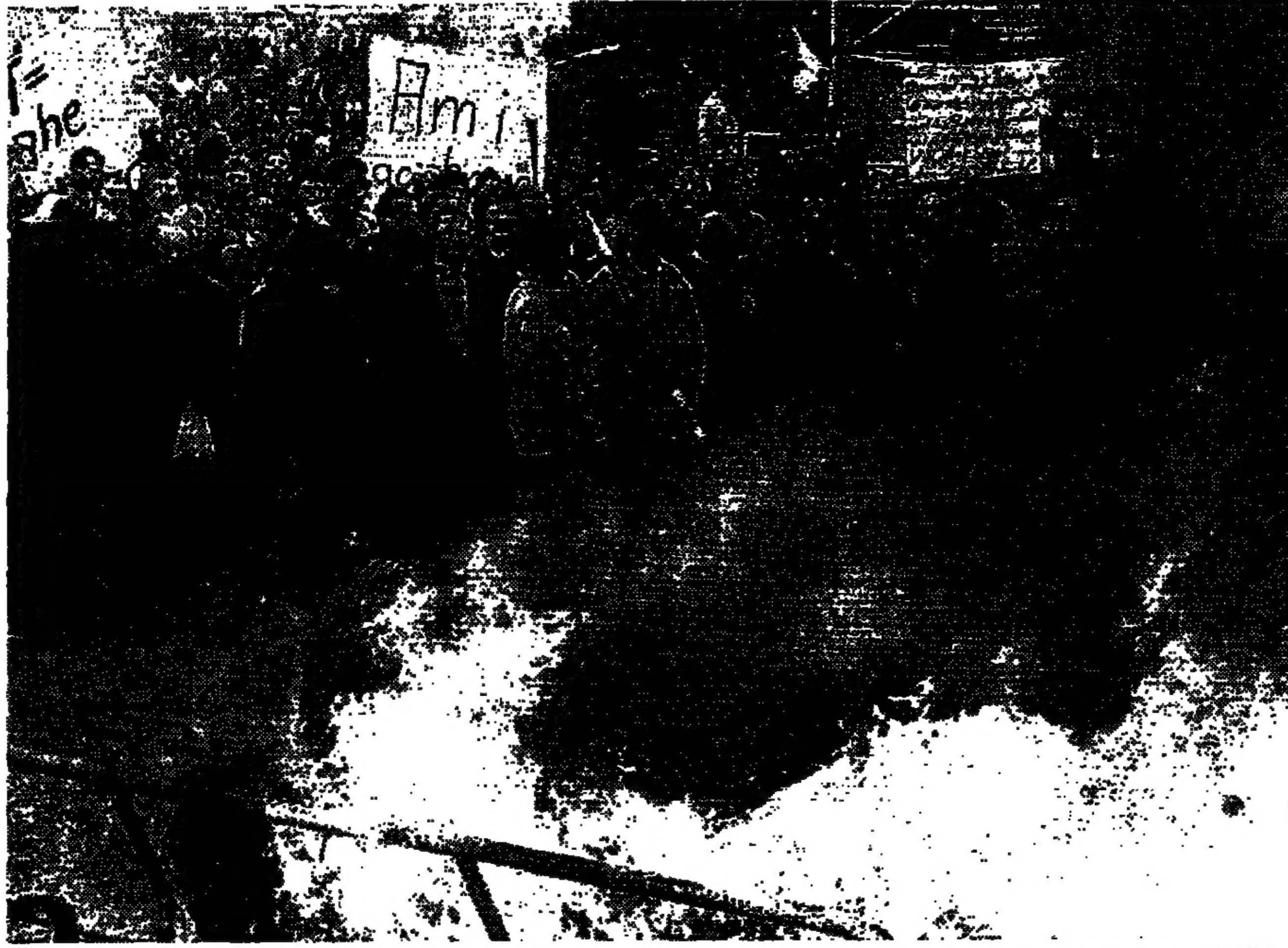
She said continuing opposition, particularly from the Bavarian-based Christian Social Union, the sister party of Chancellor Helmut Kohl's ruling Christian Democratic Union, was holding up any changes to the current nationality law, as well as the introduction of an immigration law. German nationality is based on direct German ancestry.

The need to give the younger generation a sense of identity in Germany coincides with nationwide demonstrations against racism which have been organised by the country's universities.

They started on Monday, and will last until Friday, the day after Mr Kohl delivers a special speech to the Bundestag on right-wing extremism and violence.

His speech, which will be followed by a two-hour debate, is in response to domestic and international pressure for the government to play a much more prominent role in combating xenophobia and arson attacks on foreigners.

Yesterday, legal proceedings were started against Mr Thomas Diemel, head of the far-right National Democratic Party, who allegedly said he regretted that Germany's younger generation had not killed any Jews.



Some of an estimated 40,000 German farmers who took part in a demonstration in Bonn yesterday watch a car that was set alight. Farming leaders called the protest against the US-EC pact on farm produce which was agreed last month in the Gatt trade talks.

Europol HQ dispute causes concern

THE establishment of a permanent headquarters for Europol, the planned European criminal intelligence agency, is facing a possibly long delay because of disagreements between EC member states, police officials said yesterday.

Police officials said yesterday, write Jimmy Burns in London and Andrew Hill in Brussels.

Detective Superintendent Ian Morrison, the UK delegate at

Europol's pilot offices in Strasbourg, said that in the unlikely event of agreement at the Edinburgh summit, it could take at least six months before Europol was functional. "There appears to be general agreement on the terms of reference of Europol but the issue of location is undecided and without it Europol cannot start," Mr Morrison said. Differences

over the location of Europol, which was due to start a drugs unit next month, surfaced last week during a meeting of EC interior ministers in London. Mr Kenneth Clarke, UK home secretary, said the Twelve had agreed the drugs unit should start on January 1. However, political passions are such that Dutch officials publicly alleged last week that

France was attempting to discredit The Hague's candidacy for the institution by accusing the Dutch government of failing to curb the sale of soft drugs.

It is thought likely that the dispute may only be resolved when there is a wider trade-off over other future permanent locations of key Community institutions.

EC leniency urged over new VAT rules

By Andrew Hill and Andrew Jack in Brussels

EC TAX authorities should not punish companies which accidentally break complex new VAT rules in the first few months of 1993, a senior European Commission official said yesterday.

Mr Peter Wilmott, who heads

the Commission's indirect tax and customs directorate, has written to the 12 national administrations urging a lenient attitude towards companies that are slow to meet the requirements. In turn, Brussels is likely to be lenient with laggard member states.

"We expect member states to be understanding of traders' difficulties," he said yesterday. "That doesn't mean they should simply write off big tax debts, but they shouldn't be wheeling out the big guns to sanction people who didn't really understand what they were doing."

A transitional VAT regime comes into force on January 1, and is the key to lifting border

controls on goods. But there are fears that the opening of the single market may be marred by a lack of understanding about the system.

EC transport ministers adjourned talks yesterday until December 21 on the right of hauliers to ply for trade in other EC countries. Reuter reports from Brussels.

Greek premier forced to endure party sniping

By Kerin Hope in Athens

LIKE the chorus of furies in an ancient play, dissatisfied deputies in the ruling New Democracy party are hounding Mr Constantine Mitsotakis, the Greek prime minister. They want him to relax the government's commitment to economic reform.

Mr Mitsotakis retaliated last week by sacking the entire cabinet, only to recall most key ministers after failing to persuade his severest critic, Mr Miliades Evert, to rejoin the government. He also appointed 19 new junior ministers in an attempt to defuse accusations that decision-making is confined to a coterie around the prime minister's family.

However, Mr Stefanos Manos was left in charge at the economy and finance ministries, underlining that reform is still on track. If applied with sufficient rigour, Mr Manos's adjustment programme should reduce Greece's swollen public sector deficit to manageable levels next year and bring

inflation below 10 per cent for the first time in two decades.

Nonetheless, Mr Mitsotakis can expect more trouble from his party in the months ahead. Next spring marks the start of an election year, when the government will come under increased pressure to abandon the stabilisation programme.

New Democracy deputies are unashamedly demanding an end to wage restraints, more patronage appointments and generous spending on public works in marginal constituencies. They showed what they thought of Mr Manos's policies by staying away from parliament when he presented an austerity budget for 1993. Despite Mr Mitsotakis's efforts to reimpose his authority on the party, the budget vote later this month will be a difficult test for the government.

The main challenge comes from Mr Evert, who was fired from the cabinet a year ago for trying to interfere in foreign policy when his brief was to reform the civil service.

Since then Mr Evert has

been positioning himself to succeed the 74-year-old Mr Mitsotakis as party leader, choosing the economy as the issue on which he can most easily embarrass the government. As recession continues, Mr Evert's arguments in favour of promoting growth through increased spending and cuts in interest rates find favour with a large section of the Greek business community.

Mr Evert also seems to advocate a compromise on privatisation, which is supposed to be the central plank in New Democracy's economic platform but arouses fierce party opposition.

But if Mr Manos's aims of containing the deficit are to be achieved, it will largely be due to the Dr300m (€10m) in privatisation revenues projected for next year. Moreover, he is counting on about Dr300m in extra income from direct taxation. Part of this will come from another potentially unpopular move: a crackdown on tax evasion.

Dutch banker to head governors

THE president of the Dutch central bank, Mr Wim Duisenberg, has been elected chairman of the committee of European Community central bank governors, a body regarded as a forerunner of the mooted EC central bank, writes Ronald Van de Krol in Amsterdam.

Mr Duisenberg, 57, the head of the Netherlands' central bank for nearly 11 years, will succeed Mr Erik Hoffmeyer of Denmark who was named acting chairman of the committee last year after Mr Karl Otto Pöhl, the then president of the Bundesbank, resigned.

The appointment of Mr Duisenberg is for one year only, but it will give heart to campaigners in Amsterdam's financial community who are trying to promote the Dutch capital as the site of the European central bank.

However, Amsterdam's chances are still considered slim unless there is a stalemate between Germany, Britain and France, enabling the Netherlands to emerge as a compromise candidate.

Mr Duisenberg, who was recently named Central Banker of The Year by Euromoney magazine, brings a wealth of international experience to his new job. He is a past president of the Bank for International Settlements in Basle. He began his career in the late 1960s as a staff member of the International Monetary Fund in Washington after completing a degree in economics at the University of Groningen in the Netherlands.

A former Dutch finance minister, Mr Duisenberg is a prominent member of the Dutch Labour party and a former Labour member of parliament. He had a three-year stint as a director of Rabobank, the large Dutch cooperative bank.

The Dutch central bank, like the German Bundesbank, is independent of domestic politics, and Mr Duisenberg has repeatedly said that this is a precondition for the proper functioning of any European central bank.

Belgian parties agree reforms

Seven Belgian political parties yesterday overcame stumbling blocks to constitutional reforms that threatened to destabilise the fragile coalition government, Reuter reports from Brussels.

A spokeswoman for Prime Minister Jean-Luc Dehaene said the parties reached a compromise after overnight negotiations on a "green tax" and on budget arrangements for Belgium's German-speaking region.

Polish strike to go ahead

Poland's Solidarity trade union will go ahead with plans for a two-hour general strike next week after talks with the government failed to satisfy its demands, a union spokeswoman said yesterday, Reuter reports from Warsaw.

Ms Ewa Tomaszewska, a member of Solidarity's national commission, said the government had not agreed to ease wage curbs enough to compensate falling real wages.

Correction

Laurent-Perrier

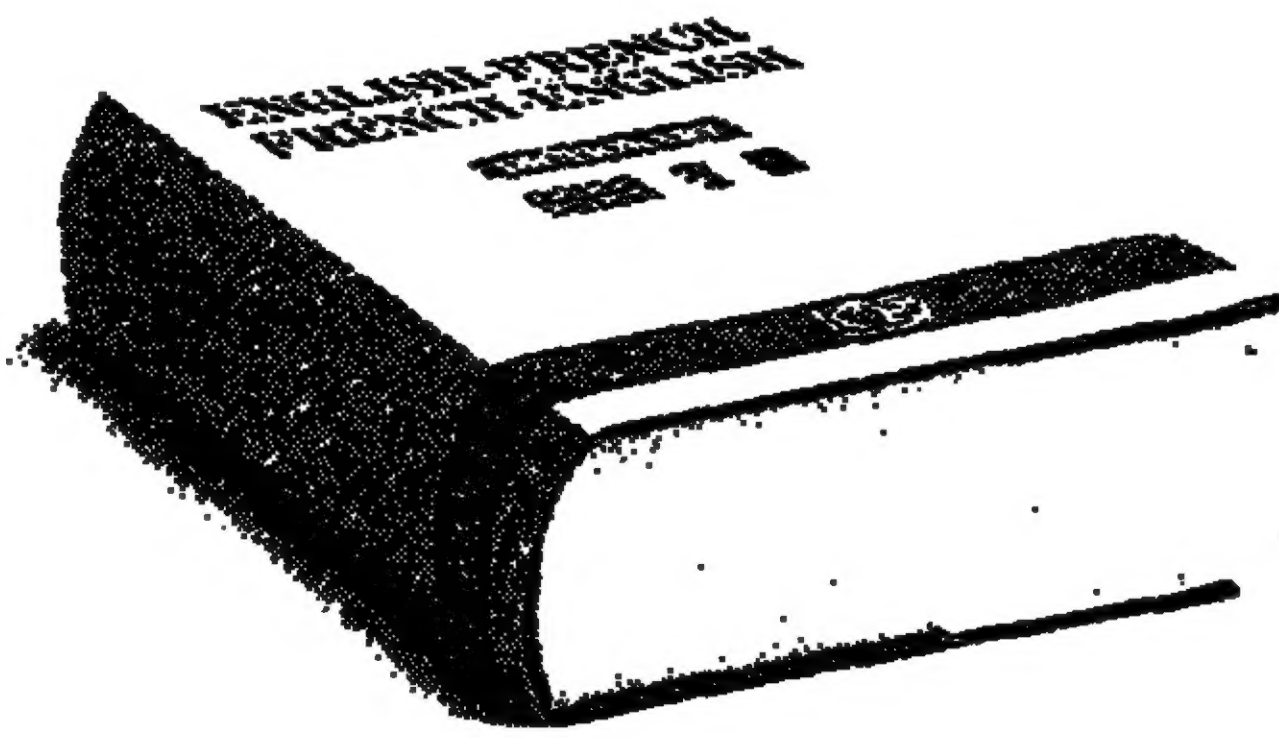
An article in the Eastern France survey on November 23 incorrectly stated that Laurent-Perrier champagne is majority-owned by the Burin-Mora family. The company is controlled by the de Nonancourt family, which holds more than 70 per cent of the equity.

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Macedonia takes up proposal for new name

EC accuses Greeks over Serb boycott

By Lionel Barber in Brussels

GREEK companies are systematically breaking the United Nations trade embargo against Serbia, sending thousands of tonnes of oil to the former Yugoslavia, EC officials said yesterday.

Operators based in Greece are sending oil by road and rail via Romania and Bulgaria, undermining UN efforts to curb Serbian aggression through a tight trade ban, the official said.

Mr Abel Matutes, the Spanish European Commissioner responsible for Mediterranean affairs, laid out the sanctions-busting dossier during a meeting of EC foreign ministers in Brussels on Monday.

Mr Matutes said up to two trains a day were leaving Greece for Romania carrying an estimated 1,000 tonnes a day. Several thousand tonnes more a week were being ferried by lorry from Greece to Bulgaria.

Mr Matutes said he was not accusing the Greek government of sanctions busting, since private operators were

involved. However EC diplomats said the Greek foreign minister was embarrassed by the presentation.

The Greek representative told the meeting his country could not control the operations of private companies with genuine documents showing oil being shipped to another destination.

Greece has denied systematic violation of the sanctions and said it was investigating specific cases when Greek-operated vessels delivering oil were observed by western naval patrols.

The details of sanctions busting come amid fresh prospects of ending the dispute between Greece and the former Yugoslav republic of Macedonia.

Greece has blocked EC recognition of Macedonian independence because it objects to the use of the name Macedonia, which is also the name of a province of Greece.

Macedonia's President Kiro Gligorov will today ask parliament to adopt the name Republic of Macedonia (Skopje) in an attempt to win international recognition.

Greece has been stopping petrol supplies to Macedonia because of the dispute. However it recently agreed to release 21,000 tonnes of oil being held at Salonika to go to Macedonia. But it is still holding around 60,000 tonnes ordered by Macedonia last summer.

The UK presidency of the EC is trying to overcome Greek opposition to recognition of Macedonia and wants to avoid at all cost a row break with the fragile Athens government before the Edinburgh summit.

EC officials said there had been a serious breakdown of discipline among UN peace-keeping forces involving Russian, Ukrainian and Kenyan troops fraternising with Serbs. Mr Douglas Hurd, Britain's foreign secretary intends to raise the matter with senior UN officials.

An EC official said the incident could encourage Croatia's President Franjo Tudjman to carry out his longstanding threat to oppose an extension of the United Nations peace-keeping mandate in Croatia beyond March 1.



Mr Gaidar yesterday: his survival hangs on tight vote today

Yeltsin twists again in bid to salvage Gaidar

By John Lloyd in Moscow

MR BORIS YELTSIN, the Russian president, yesterday offered a power-sharing deal and a further ministerial sacrifice in an effort to persuade the Russian Congress of Peoples Deputies to approve the reappointment of Mr Yegor Gaidar as prime minister.

A vote on Mr Gaidar, at present the acting prime minister and sole candidate for the post, is expected today. Mr Yeltsin's latest concessions to the middle ground in Congress mean the outcome of today's vote is likely to be very close.

Mr Yeltsin yesterday recommended Mr Gaidar to the deputies as a man of courage, of devotion to the cause of reform and - to cynical laughter - "just smart".

The president also proposed that the Supreme Soviet, or smaller permanent parliament, be given the right of veto over the appointment of four ministers - defence, security, interior affairs and foreign affairs, the so-called "power block".

Such an arrangement would probably seal the fate of Mr Andrei Kozhev, the liberal foreign minister, whose pro-western sentiments and perceived

indifference to the fate of Russians in other former Soviet republics have angered conservative and centrist deputies. However, as a constitutional change this move would need a two thirds majority - and the signs were yesterday that it would be unlikely to obtain such a vote.

Several faction leaders, who met Mr Yeltsin before the session, said that they would not vote for the deal because it did not include the key economic ministries. They also said they were unlikely to vote for Mr Gaidar.

Mr Vassily Lipitsky, a leader of the Civic Union bloc which has been negotiating with the president over economic reform and the government, said yesterday he "could not see a majority" - a minimum of 521 - for Mr Gaidar.

Mr Oleg Plotnikov, the co-ordinator of the "Smena" centrist faction in Congress said that "whatever I think about Gaidar, I know that the people who elected me in Kostroma would hate it if I voted for him. He is very unpopular in the countryside especially, where they haven't seen anything good from the economic reforms".

If not confirmed today, Mr

Gaidar may still live on as acting prime minister until the next Congress is convened in April - under a clause in the constitution which allows the president to appoint his choice as premier for three months before submitting a new candidate.

Mr Yeltsin's offer, and the apparent willingness to sacrifice a foreign minister, marks the intensity of the struggle between the president and the parliament on the government's policies and personnel.

He has been unable, it seems, to conclude an agreement with the centrist Civic Union bloc which could deliver a stable majority of votes in the Congress - largely because the loose coalition of movements and parties cannot exert discipline over their nominal members.

However, his concessions to the middle ground means that the vote to confirm Mr Gaidar today is likely to be a cliffhanger, with at least some of the centrists believing that the changes in economic policy, foreshadowed in Mr Yeltsin's speech last week and in the outline agreement on policy reached between the government, were sufficient to attract their support.

Sarajevo cut off by fighting

Geneva talks fail to make a start

INTERNATIONAL mediators yesterday failed to get Bosnia's Muslim-led government to talk to Mr Radovan Karadzic, the Bosnian Serb leader, agencies report from Geneva.

Diplomats said Mr Cyrus Vance and Lord Owen, co-chairmen of the Geneva conference on the former Yugoslavia, had asked Mr Haris Silajdzic, the Bosnian foreign minister, to meet the rebel Serb chief, but Mr Silajdzic, and Croat leader Mate Boban, both refused to hold direct negotiations with Mr Karadzic to discuss maps showing their visions for the future shape of Bosnia.

Earlier Muslims, Serbs and Croats presented plans setting out their widely differing plans for a peacetime Bosnia.

Although Serb, Muslim and Croat military officers from the three warring sides have held UN-sponsored talks in Sarajevo, Muslim political leaders have consistently refused face-to-face contact with Serbs whom they blame for the slaughter in Bosnia.

Renewed fighting on the ground yesterday, especially around the Bosnian capital of Sarajevo, made real progress virtually impossible in Geneva.

Fierce fighting broke out in Sarajevo yesterday effectively cutting it off from the outside world after Serb tanks closed the main road to the airport.

Many parts of the city and its surroundings were under

fire with the main assault on the battered suburb of Dobrinja. United Nations headquarters west of the centre also took a direct hit, wounding at least one person.

French peace-keepers said at least two Serb tanks on the airport road had fired some 20 rounds into the Dobrinja suburb. The fighting, the most serious in weeks, seemed to be out of control as the UN peace-keepers, who approached the Serbs to ask them to stop fighting, said they were forced to withdraw under fire.

French Colonel Armel Vout of the UN Protection Force described the situation as "very serious".

UN peacekeepers said fierce clashes between Serbs and Muslims were continuing along the airport road and on the only other route into the capital from Serb-held Ilidza.

Sarajevo's airport has been closed for seven days because two UN planes were hit by small-arms fire last week.

Serb and Bosnian commanders signed a UN-brokered agreement on Monday to respect the safety of humanitarian flights and to co-operate in keeping the airport road open.

The agreement, which was to have gone into effect at midnight on Tuesday, is now in doubt.

Sarajevo's Kosovo hospital was hit on Sunday by around 30 mortar bombs.

Hungarian poster ban in Romania

By Virginia Marsh in Bucharest

A ROMANIAN nationalist mayor has banned Hungarian language posters in the ethnically mixed Transylvanian town of Cluj.

Mr Gheorghe Funar said he had outlawed the posters which advertised a Hungarian language theatre festival because they refer to "Kolozsvár", the Hungarian name for the town.

"I am the mayor of Cluj. There is no such place as Kolozsvár in Romania," he said.

A spokesman for the ethnic Hungarian party said the mayor's move was the latest in a "deliberately provocative hate campaign" against local ethnic Hungarians who form nearly a quarter of the 330 inhabitants of the town which was once capital of Hungarian-ruled Transylvania.

Mr Funar, who ran unsuccessfully against President Ion Iliescu in presidential elections this year, has imposed several curbs on minority rights.

This recently prompted Hungarians to demand limited self-rule for their communities in Transylvania.

Romania has 1.6m ethnic Hungarians, 7 per cent of the country's population, according to a census this year.

Transylvania, where most of the Hungarian minority live, was ruled by neighbouring Hungary before 1918.

Czechs win more investment

FOREIGN investment in Czechoslovakia has more than doubled from 1991, the central State Bank said yesterday, agencies report.

"By the year's end, we count on direct foreign investments reaching some \$1.2bn," Czechoslovak State Bank's spokesman Mr Martin Svehla said.

Direct investments during the first three quarters of this year amounted to \$975.6m, a 81 per cent rise over 1991. "Some 53 per cent of that sum came in only between July and September," Mr Svehla said. But he explained this was the result of contracts concluded earlier in the year.

Since 1991, when a reform designed by Premier Vaclav Klaus to achieve a speedy transition to a market economy came into effect, foreign investment in Czechoslovakia has totalled \$1.725bn.

This year, most investments were made in construction, food processing and banking.

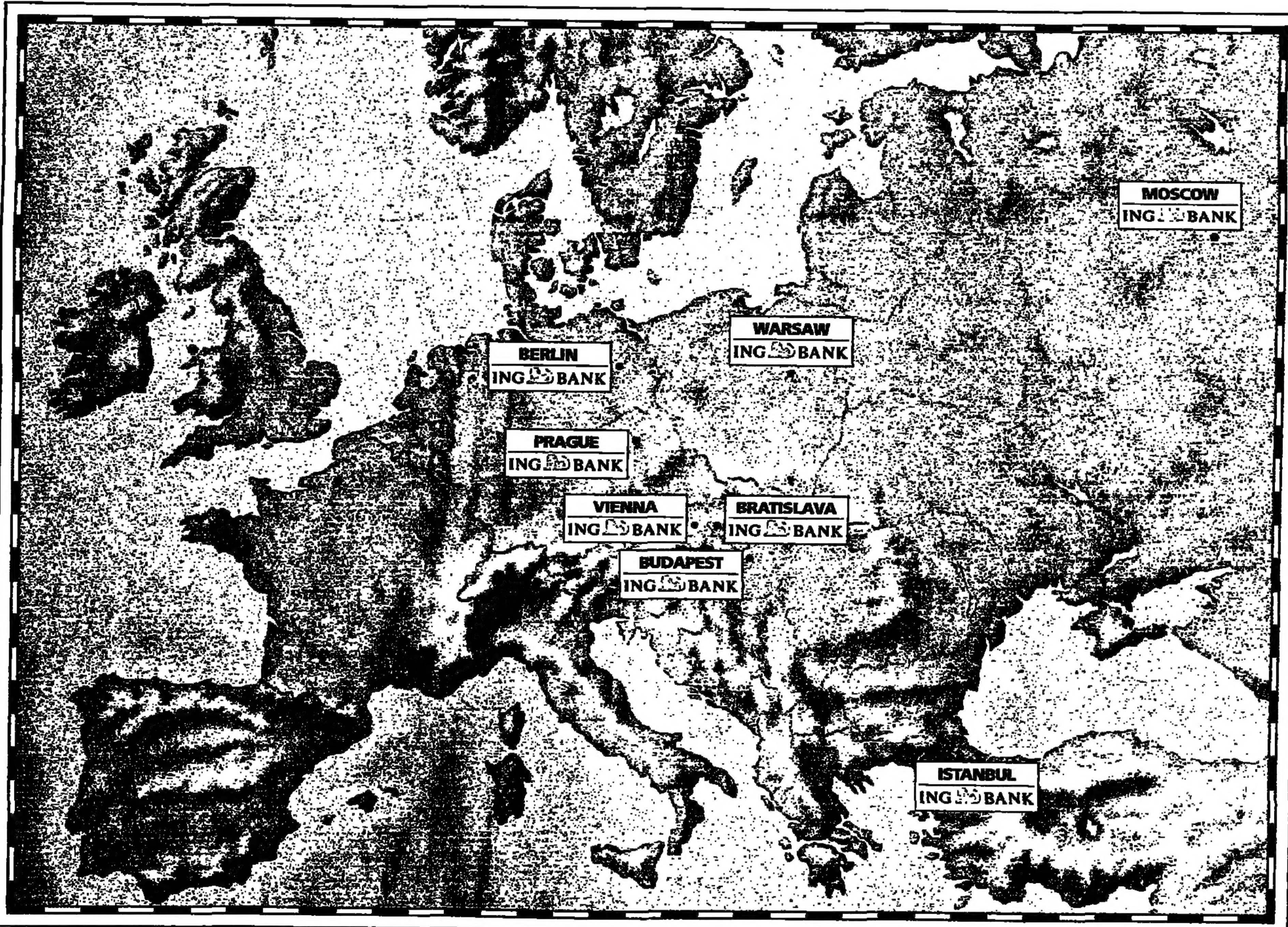
Leading investor countries included the US and France with last year's biggest investor, Germany, ranking third.

Among the companies waiting to move in next year were Renault, Bosch, Porsche and Westinghouse.

Government experts calculate next year's direct investments in the Czech republic could amount to \$1.3bn.

This year, Czechoslovakia also received some \$758m in loans from the world's leading financial institutions - the largest part, \$284m from the IMF.

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NEWS: INTERNATIONAL

Business upset by Ayodhya turmoil

By Stefan Wagstyl in New Delhi, R C Murthy in Bombay and Kunal Bose in Calcutta

INDIAN businessmen fear that the crisis sparked by the destruction of a mosque at Ayodhya by Hindu militants could harm the economy if the government does not rapidly move to restore stability.

They fear that the riots, curfews and strikes which have followed Sunday's assault on the mosque will damage business confidence and jeopardise the reform programme of Mr P V Narasimha Rao, the prime minister.

They said much would depend on how quickly order was restored. "The next two days are vital," said Mr V. Raghuraman, secretary general of the Association of Indian

Chambers of Commerce and Industry.

Finance Ministry officials also acknowledged the crisis could affect sentiment if it were allowed to drag on.

The mood was particularly bleak in Bombay, which has borne the brunt of the riots. Many offices in the city were closed yesterday after disturbances in which at least 50 people were killed.

The incident was already having an effect on business life: Hindustan Aluminium, an aluminium producer, yesterday postponed the pricing of a planned \$100m Euro-equity issue because the Bombay stock market was closed so no price quotations were available.

Stockbrokers prepared for a sharp drop in share prices

today, the first day the market is due to open since the mosque's destruction. Hotels reported many cancellations.

Mr Ratan Tata, chairman of the Tata group, India's largest company, said from his Bombay office: "The world is going to look at India as an unstable country. Political stability is one of the main considerations governing foreign investment."

Mr Nimesh Kampani, head of JM Financial and Investment Services, an investment broking company, said the incident would probably affect India's international credit rating - and make it more difficult for Indian companies to raise funds overseas.

In Calcutta, Mr Mumtaz Ahmed, a spokesman for the Bengal Chamber of Commerce and Industry, said: "Foreign

investors don't just look for favourable government policies. They watch the situation on the ground. Foreigners will be in no hurry to invest after the Ayodhya incident. We tend to forget that India is just one of many investment options available to foreign investors."

Mr Jahar Sengupta, chairman of ICI India, an affiliate of the UK chemicals combine, was less gloom. He forecast that there would be a serious setback in foreign investment in India only if Mr Rao's government falls - an event which yesterday seemed unlikely.

Mr Ashok Desai, the Finance Ministry's chief economic adviser, said the main impact of the crisis on foreign investment would be on portfolio investment. Businessmen who knew India well and were

considering specific direct investments would not be so easily put off. Mr Manmohan Singh, the finance minister, who is in Washington, said yesterday that now that the liberalisation measures "are seen to work, the reforms can only go forward."

The mosque's destruction has held up government business, including economic policy-making, with ministerial timetables cleared of routine work to make room for considering the crisis. The parliamentary committee probing the Bombay securities market scandal has postponed its meetings. If they are not resumed soon, that will delay MPs' final report which is expected to contain firm recommendations about financial reform.

Japanese may aid chemicals industry

By Paul Abrahams

JAPAN'S ailing petrochemical industry may be offered fiscal incentives to encourage rationalisation.

A strong possibility exists that tax exemptions, interest-free loans and other incentives could be offered to the industry in an effort to help restructuring, said Mr Hajime Furuta, director of the basic chemicals division of Japan's Ministry of International Trade and Industry.

Restructuring was needed because the Japanese petrochemicals industry was weak and uncompetitive, added Mr Furuta, in London for the Financial Times conference on petrochemicals.

The plight of the Japanese industry, the world's second largest after that of the US, with an annual turnover of nearly \$85bn was worse than in the last recession 10 years ago.

Consumer demand seemed saturated and the inventory adjustment would last longer than during the last recession. Raw material prices were lower this time.

The industry had severe structural problems because of excessive competition. The sector was highly fragmented, with 12 ethylene manufacturers. The largest had 12 per cent of the market and the smallest 6 per cent.

Alliances and other forms of co-operation were needed, with both domestic and foreign partners.

In the scramble for market share, excess capacity had been built up. Annual Japanese production next year would be 7.3m tonnes, while demand would be 6m tonnes.

The industry was facing increased competition from other Asian producers, especially South Korea. Miti estimates a global oversupply of ethylene of 5.2m tonnes a year by 1996. In addition, the slowdown in the Japanese economy meant there was more than two months' worth of stocks.

Between April 1991 and October this year, prices of high and low density polyethylene had fallen 36 per cent, with those for polypropylene and polystyrene falling more than 40 per cent.

The industry's profits last year had already fallen 45 per cent to under \$80m. For the first half of this year, the figures were worse, with profits down 80 per cent to \$12m. Five ethylene producers were in the red and others would follow.

There was no question of intervention such as in 1983 when, after the "structural adjustment law", almost 30 per cent of capacity was shut. But Miti would try to act as a catalyst.

Pretoria cancels talks with PAC after murders

By Patti Waldmeir in Johannesburg

THE SOUTH African government said yesterday it was cancelling planned talks with the ultra-radical Pan Africanist Congress and would hold no further negotiations with the group until it distanced itself from attacks carried out by its armed wing, the Azanian People's Liberation Army (Apla).

Yesterday the PAC further enraged the government, which is under pressure from its white supporters to take a tough line on racial violence, by defending Apla, which has claimed two attacks on white civilians over the past 10 days. Five people have died.

Orde Boersvold (Order of the Afrikaners People), a white splinter group, said it would bomb black taxi ranks in retaliation. Other white right-wing groups, most small but with former and serving security force officers among their members, also threatened vengeance.

The Conservative party, the largest white opposition group, asked its supporters to report to their nearest CP office to help counter the Apla threat.

Four operators said publicly over the attacks, notably in the UK, had prompted some to cancel Christmas holidays.

White South Africans have been shocked by Apla statements declaring war on whites - despite the fact that, in a country with one of the highest murder rates in the world, the risk of falling victim to racist terrorism is small.

In the past, political commentators have tended to dismiss the PAC, which waged a

guerrilla war from exile for more than 30 years until it was unbanned in 1990, but can claim few previous attacks on military or civilian targets.

But they point out that the African National Congress's decision to enter negotiations with the government has alienated some radical black youths, and has probably boosted PAC membership. Although a recent opinion poll put this at only 3 per cent nationwide, the organisation has recently struck a chord with radical township youths by condemning the white reaction to Apla's attacks: the PAC argues, not without foundation, that whites ignore thousands of black deaths and react only when whites also die.

The PAC army has established bases in the Transkei black "homeland", where three out of five members of the ruling Military Council are understood to be PAC sympathisers.

Ironically, one effect has been to cement the improving relationship between the ANC and the government, which are negotiating to rule South Africa by coalition in the transition to full democracy. In the face of PAC leaders defending their slogan "one settler one bullet", the ANC, which has condemned the attacks, appears more moderate.

The Apla campaign - even if it claims no further victims - is likely to undermine progress in constitutional negotiations. The government had succeeded in recent months in persuading the PAC to join talks on a new constitution, but PAC officials have now said they will no longer participate in talks, or in an interim government.

Zambia eases foreign exchange regulations

By Tony Hawkins in Harare

ZAMBIA has liberalised its foreign exchange regime by merging the official and free market rates, before a meeting with donors in Paris on Friday.

As a result, the official rate has been devalued 28 per cent from 248 kwacha to the dollar to K320. Before the move, announced on Monday night by the Bank of Zambia, the stronger official rate had applied to copper exports, accounting for 90 per cent of total foreign earnings, as well as to official payments abroad for debt service, fuel imports and other key imports such as fertiliser.

Since the Movement for Multi-Party Democracy (MMD) government was elected 13 months ago, the foreign exchange market has been substantially deregulated. Zam-

bians can buy up to \$6,000 per transaction at bureaux de change to pay for imports, service payments and foreign travel, with no limit on the number of transactions and no documentation required.

The effective devaluation of the official rate will boost the domestic currency earnings of the government-owned Zambia Consolidated Copper Mines and will also have a favourable impact on government revenue. But costs and prices will be adversely affected, temporarily exacerbating inflation currently running at more than 100 per cent.

Officials are confident, however, that the worst of the inflationary spiral is over and that inflation will slow to 20 per cent by the final quarter of 1993.

Takeshita confident he can avoid resignation

By Robert Thomson in Tokyo

JAPANESE opposition parties yesterday went through the ritual of formally demanding the resignation from parliament of Mr Noboru Takeshita, the former prime minister, who has already defied two months of public demands that he take his final political bow.

Mr Takeshita's determination to remain the elder statesman of the ruling Liberal Democratic party reflects the ability of tainted Japanese politicians either to ignore demands for their departure or to feign a resignation, only to return a few months later, apparently "purified" by the experience.

In presenting the resignation demand to parliament, the three largest opposition parties claimed that Mr Takeshita had brought shame to the Japanese political system and "damaged its international reputation" through alleged gangster links.

It is claimed that Mr Takeshita

used the good offices of a gang boss to silence an extreme right-wing group which had mounted a "praise to death" campaign against him in 1987, before his selection as party president and elevation to the prime minister's ship.

Having survived two sessions of testimony before parliament and secure in the knowledge that the opposition does not have the numbers to make its resolution stick, Mr Takeshita has told his aides that the worst of the crisis is over, and that they should concentrate on a cabinet reshuffle likely later this week.

He has justified his stand by arguing that "if I resign, people will think I am guilty", though the conflicting evidence given by himself and other LDP officials has prompted about 70 per cent of Japanese, as measured by opinion polls, to demand Mr Takeshita's resignation.

In private, Mr Takeshita

insists he has done more for Japan than any other MP and, regardless of the gang allegations, is entitled to a dignified exit from politics. He also says the party owes him a large favour for his resignation as prime minister in 1989 during the Recruit stocks-for-favours scandal.

Mr Takeshita argues that he deserves credit for having negotiated the introduction of a controversial consumption tax, and that his skills contributed to the resolution of various complex bilateral disputes, including a decade-old debate with the UK government over exports of whisky to Japan.

While Mr Takeshita is confident he has survived, he recognises that another term as prime minister is out of reach. Conscious of his place in political history, he had hoped to clear his name with a scandal-free second term and had presumed that a lack of obvious successors to Mr Miyazawa would provide an opening.



Noboru Takeshita: told aides that the worst of the crisis is over

UK, China resume HK talks

By Simon Holberton in Hong Kong

BRITAIN and China yesterday began three days of talks on the future of Hong Kong and devoted the first session to a resolution of known positions about proposals made by Governor Chris Patten for more democracy in the colony.

China urged Britain to withdraw the governor's proposals and abide by the 1984 Sino-British Joint Declaration and the 1990 Basic Law - the mini-constitution drafted by Beijing for Hong Kong when it reverts to Chinese sovereignty in 1997.

Mr Tony Galsworthy, Britain's representative, again offered China talks on the proposals which envisage a broadening of the franchise in elections due in 1995.

The latest round of talks is

the 25th to be held by the Joint Liaison Group which was set up, in accordance with the Joint Declaration, to oversee orderly transfer of sovereignty of Hong Kong to China. British officials do not expect much progress to be made this week.

Mr Patten's proposals initially won widespread support in Hong Kong. That support, however, has weakened in the face of a concerted campaign by China to discredit the governor, and local concerns about Mr Patten's style of leadership.

Yesterday's Economic Journal, Hong Kong's leading financial daily, carried an editorial that was very critical of the governor's style.

George Graham adds from Washington: US President-elect Bill Clinton said yesterday he was "very concerned" about the mounting tension

between China and the UK over the future of Hong Kong, and hoped the US could play a "very constructive role in relieving those tensions."

"I think it is clear from the activities in China in the last few years that the Chinese desperately want to maintain the economic engine of Hong Kong. I hope they understand they really can't maintain it unless they also maintain a large range of personal freedom, liberty and human rights," he told a meeting of media executives in Washington yesterday.

Mr Clinton, who during his election campaign criticised President George Bush for taking too gentle an attitude to Chinese human rights abuses, said he might want to say more on the subject after he enters the White House.

Amnesty says: "We believe the law enforcement and justice system in China actually foster torture." Prisoners have few rights. Many are abused into confessions. Amnesty accuses China of failing to provide basic safeguards to protect prisoners. Many are held with no right of access to lawyers, and at the mercy of police and guards.

Torture rife in Chinese jails, claims Amnesty

By Yvonne Preston in Beijing

BRUTAL and sometimes fatal torture has become endemic in Chinese jails in the past 10 years, although the country's law forbids it and China has ratified the UN convention against it, Amnesty international reports today.

Amnesty says continued campaigns to crush crime and political opposition have fuelled human rights violations, including arbitrary detention, executions and torture. Its report details dozens of cases, some involving women and children, beaten, shackled for months on end, given electric shocks, and kept in dark cells too small to stand up or lie down in.

Amnesty says: "We believe the law enforcement and justice system in China actually foster torture." Prisoners have few rights. Many are abused into confessions. Amnesty accuses China of failing to provide basic safeguards to protect prisoners. Many are held with no right of access to lawyers, and at the mercy of police and guards.

China says it follows up cases of torture. A British human rights delegation was told last week that 400 cases of torture were investigated in 1991, leading to penalties against the torturers. Amnesty cites the same figure, which it believes represents only a fraction of the real number of cases. It urges China to protect prisoners and end the impunity many prison guards enjoy.

The activist and the tycoon in tussle for South Korea presidency

Two very different sons of the nation want to be the first opposition candidate to win office, write John Burton and Alexander Nicoll

WHILE Mr Kim Dae-jung was being imprisoned by South Korea's former military dictatorship, Mr Chung Ju-yung was building the country's largest corporate empire with the help of subsidised government loans.

Now both want to become the first opposition candidate to win the presidency. In spite of their contrasting backgrounds, their platforms for the December 18 elections are strikingly similar, especially on opening up the flagging economy.

Mr Kim, the 67-year-old democracy campaigner, has his best chance of gaining the prize he sought in 1971 and 1987. He was repeatedly jailed and exiled during three decades of struggle against the military regime.

He survived assassination attempts, was kidnapped from Japan by the Korean Central Intelligence Agency in 1973 and

had a death sentence commuted at the last minute in 1981.

His fate in the elections depends largely on the number of votes captured from the government by the populist, Ross Perot-style campaign of Mr Chung, founder of the Hyundai industrial group.

The gruff 77-year-old, who rises at 3am each day and walks to work surrounded by a gaggle of his sons, is a former construction worker and truck driver who built Hyundai over some 45 years into Korea's biggest chaebol, or family-owned conglomerate. He entered politics last year in frustration at attempts by the government to restrict the activities of groups such as his.

Mr Chung's gain in popularity has raised the possibility that he could win enough votes from Mr Kim Young-sam, the ruling party candidate, to give victory to Mr Kim Dae-jung. There is even speculation that



Chung Ju-yung: a Ross Perot

Mr Chung could win.

Mr Kim Dae-jung is taking two views of the official investigation launched this week of alleged secret funding by

Hyundai of the United People's Party - charges which Hyundai and the UPP deny.

On the one hand, he is dismissive of Mr Chung's candidacy. In an interview on his campaign bus, he said Mr Chung's career had not contributed to the development of democracy and that his candidacy had corrupted politics.

Mr Chung, he said, "has not been able to distinguish between the corporation and politics". "He is using all his employees and even his subcontractors as party members.... He is promoting money politics in the election."

But Mr Kim is also calling for fairness in the supervision of the elections. He says the ruling Democratic Liberal party is also guilty of violations and that the government probe is a biased attempt to prevent him from winning. The government insists it is neutral.

Though there are similarities between the platforms of the three main candidates - they all promise deregulation of the economy to boost flagging growth - Mr Kim Dae-jung is emphasising improvements in social welfare and a reduction of regional divisions within South Korea, as well as improving the popular image of bickering, ineffective politicians. He says he would offer 10 out of 26 ministerial positions to the other main parties.

He wants a phased, peaceful re-unification with North Korea and sees foreign policy continuing to be based on a close relationship with the US, with Washington remaining as the stabilising influence in east Asia.

Mr Kim suffers from a perception among voters that he is too old a face and, because of his struggles with the military, that he has radical anti-establishment views. This is despite attempts to re-model his image



Kim Dae-jung: too much past?

and his clear espousal of free-market economic policies. He argues that his close association with the trade union movement would help him

reduce the industrial strife which has convulsed Korean industry since democratic reforms five years ago.

By contrast, Mr Chung's non-political career and his success in business appear to be winning him votes. To many Koreans, he personifies the country's rags-to-riches story. Because of his huge fortune - he says it is \$4bn - they feel that he is unlikely to become enmeshed in the corruption which pervades Korea's political system.

Calling himself the "economic president", Mr Chung strikes a chord with his promises of very rapid economic growth, low inflation, projects to improve infrastructure, low housing rents and rapid deregulation.

"I would like to reduce government control and leave everything in the hands of the marketplace," he said in an interview.

Perhaps what is most surprising, he plans to eliminate the economic system on the back of which he and Hyundai prospered. He would stop cheap loans to the chaebol and break them into more autonomous units to achieve greater efficiency.

"When the country was small, we needed to combine together to compete against larger companies. Now we need to break them up in order to achieve international competitiveness."

Mr Kim Dae-jung, like many politicians, dismisses Mr Chung's rough-and-ready prescriptions and bold promises as "baseless". But there is no doubt that they are exciting voters who profess disillusionment with the political process and yearn for strong leadership. If one of the opposition candidates wins, his challenge will be not only to spearhead economic development, but also to build greater faith in democracy.

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Hungary buys US military hardware

By Nicholas Denton
in Budapest

THE US has agreed to supply military hardware to bolster Hungary's air defences following repeated breaches by jets from neighbouring Yugoslavia. The arms sale, the first by the US to a former Warsaw Pact nation, involves "identification-friend-or-foe" (IFF) equipment and is worth \$12.5m (\$24m). Under the deal US suppliers will deliver four ground-based radar stations and electronics for 118 military aircraft. The equipment will allow the Hungarian air force to leave the IFF system inherited from the communist Warsaw Pact and to distinguish the country's own planes from those of former allies.

Hungary's need for firmer air defences became apparent a year ago when war in Yugoslavia spilled over the border and a series of territorial violations culminated in Yugoslav aircraft bombing the southern Hungarian town of Barcs.

The agreement also demonstrates Hungary's success in establishing close security ties with Washington in advance of eventual membership of the North Atlantic Treaty Organisation, Budapest's goal.

The purchase from the US comes within a month of deals for military spare parts from Germany and Russia.

Hungary maintains its military acquisitions are defensive and do not change the regional balance of power, which remains strongly in favour of the country's neighbours. Sikorsky, the US-based helicopter manufacturer, yesterday signed a \$1.1bn deal with Turkey for the sale and co-production of Black Hawk helicopters, AP reports from Ankara.

Sikorsky will deliver 45 helicopters to Turkey in nine months, and a further 50 helicopters will be co-produced in Turkey over four years.

Turkey, which has been stepping up efforts to modernise its military, will also receive 50 A-10 fighter aircraft and 100 Cobra helicopters from the US over the next five years.

Recovery is in place, but taking its time

TWICE in the past two years US economic recoveries have lost momentum in spite of promising signs of faster growth. It is hardly surprising, therefore, that president-elect Bill Clinton is treating the latest evidence of an upturn with caution.

"We may or may not be coming out of our recession," he told students in Chicago this week. "There are some good indicators that we are."

In fact few forecasters doubt that the US has emerged from recession: gross domestic product has grown every quarter since the spring of last year. The debate centres on whether the economy is at last emerging from a prolonged bout of stagnation that encompassed almost the entire Bush presidency.

Real GDP growth has averaged less than 1 per cent a year since 1989. Even if the faltering upturn that began in May 1991 is taken as the starting point, growth has averaged less than 2 per cent, or about a third the pace normal in the early stages of US recoveries.

Revised figures indicating growth at an annual rate of 3.9 per cent in the third quarter and a flurry of encouraging short-term indicators - such as recent jumps in consumer confidence, factory orders, and the Purchasing Managers' Index - have prompted speculation that the economy is now moving up a gear.

Some of the structural drags on growth do seem to be easing. Lower interest rates and repayment of old debts have reduced the fraction of personal and corporate income absorbed by debt service, allowing both sectors to spend

Productivity-led growth likely for US, writes Michael Prowse

a little more freely. Real corporate profits were up by nearly a quarter in the third quarter relative to the same period last year, reflecting, in part, faster growth of productivity than wages.

Mr David Hale, chief economist at the Kenner group in Chicago, points out that bank profitability and capital ratios have also strengthened sharply, allowing an easing of the "credit crunch". There is anecdotal evidence, he claims, of an upturn in bank loans to small and medium-sized companies - the sector responsible for the bulk of job creation in the 1980s.

But the improvement is recent and modest, and growth is likely to be restrained by other structural weaknesses. "There are too many drags on the economy for a normal recovery to occur," says Roger Brinner and David Wye, economists at DRI/McGraw Hill, the forecasting group. They fear that defence cuts will hold back recovery in many regions: defence spending as a share of federal expenditure is projected to fall from 27 per cent last year to 17 per cent in 1995. They predict continuing softness of commercial real estate owing to chronic overbuilding in the 1980s. And, like most other forecasters, they are pessimistic about US exports, one of the main engines of recent growth. Demand is slowing in many important markets, including Europe, the Far East and Mexico.

But with domestic consumption accounting for two-thirds of economic activity, the spending proclivities of the US consumer will dominate the economic outlook. In the third quarter, consumer spending grew at an annual rate of 3.7 per cent, and retailers are predicting a merrier Christmas than in 1990 or 1991. Yet doubts persist about the sustainability of personal spending.

The savings rate fell sharply in the third quarter to 4.5 per cent, against 5.3 per cent in the second quarter. A further decline seems improbable. Consumption will thus be determined by growth of incomes. And the perceived stumbling here is the continued sluggish pace of job creation.

Last Friday the Labour Department reported the fifth consecutive monthly decline in the unemployment rate, to 7.2 per cent. But most of the fall in unemployment since the summer reflects a contraction of the labour force rather than new job creation. Private-sector employment has been roughly flat since the spring of last year, in stark contrast to previous recoveries.

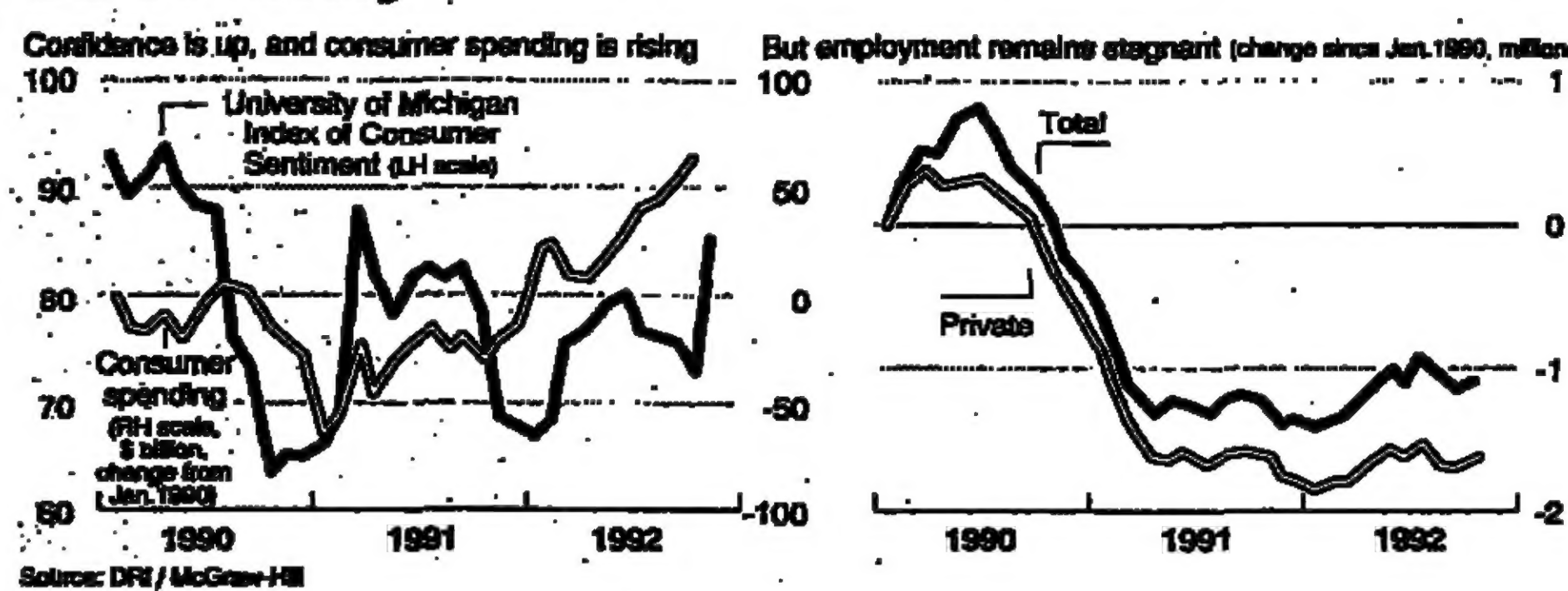
"The economy is probably still tracking the 1.5-2.5 per cent growth pace of the past year," concludes Mr Paul Mas-troddi, a senior economist at J.P. Morgan, the New York bank. In keeping with most forecasters, however, he predicts a gradual acceleration of growth to 3 per cent or more in the second half of next year. The possibility of a faster recovery should not be ruled

out: once consumer and business confidence returns, the US economy has a habit of snapping back faster than expected. But the likeliest prospect is the kind of steady, productivity-driven recovery experienced by European economies in the 1980s. In such recoveries, unemployment tends to stay relatively high.

Such a recovery would suit Mr Alan Greenspan, chairman of the Federal Reserve, who hopes to make further progress towards stable prices in his second term. With inflation only just beginning to dip below 3 per cent, the Fed is unlikely to cut interest rates again and could raise them in the second half of next year.

For Mr Clinton's economic team, however, the figures pose a dilemma. The recovery is strong enough to make anything more than a token fiscal stimulus next year look risky. Yet it may be too sluggish to convince most Americans that he has turned the economy around. How Mr Clinton resolves this dilemma will be the first big economic test of his presidency.

US economy



Democrats poised to grant Clinton long honeymoon on the Hill

By George Graham in Washington

DEMOCRATIC congressmen yesterday predicted a "long honeymoon" for Governor Bill Clinton after a morning meeting with the president-elect on Capitol Hill.

"Democrats on the Hill are starved for someone to get along with at the White House. Bill Clinton's going to find no stonewall here," said Congressman Pat Williams of Montana.

But Republicans promised confrontation to the incoming president, signalling their intentions by ousting the moderate Congressman Jerry Lewis of California from chairmanship of the House of Representatives Republican Conference, the party's third-ranking leadership position, in favour of Congressman Richard Armitage of Texas, a more pugnacious right winger.

Mr Clinton has already held a series of meetings with leaders of

both parties in Congress as well as with the 110 first-time members, who some have likened to the independent and reform-minded group of congressmen elected in 1974 in the wake of the Watergate scandal.

The "freshmen" have made their presence felt by interviewing committee chairmen seeking re-election, a tactic last adopted by the Watergate class. But early results from party caucus elections suggest that only minor cracks are likely to emerge in

the traditional congressional power structure, where seniority counts for almost everything.

True, 82-year-old Congressman Jamie Whitten of Mississippi, who can trump anyone on seniority by virtue of 51 years' continuous service, was ousted from the chairmanship of the highly influential appropriations committee. But Mr Whitten will be replaced by Congressman Bill Natcher of Kentucky, who at 83 is even older, but healthier.

Most other committee chairs appear safe, although a battle is brewing for chairmanship of the budget committee, which would fall open if, as many expect, Congressman Leon Panetta is named director of the Office of Management and Budget.

The race is expected to pit Mr Charles Stenholm, a fiscal conservative from Texas, against the more left wing Mr Martin Olav Sabo of Minnesota, with Mr John Spratt of South Carolina somewhere in the middle.

Brazil to act over surge in kidnaps

By Christina Lamb
in Rio de Janeiro

IN AN attempt to crack down on a new wave of kidnappings in Rio de Janeiro, the Brazilian Congress is to vote this week on a project to freeze the assets of captives' families.

An Interpol conference last week said Rio was becoming the world centre of kidnapping. The city has a record number of 10 people in captivity, two of whom have been held for two months, while 148 cases have been registered this year.

Mr Mauricio Correa, the law minister, admits: "It's like a raging epidemic."

Multinationals, such as Land Rover, planning to invest in Brazil are bypassing Rio as unsafe. The head of one foreign bank in São Paulo said: "Five years ago we couldn't get people to move from Rio. Now, no one wants to stay."

Victims are usually leading businessmen or socialites, or their relations, with the real number of kidnappings believed to be far higher than the 360 registered in the last three years. Many are not reported for fear of a repeat.

The kidnappers are well armed, with imported weapons and cellular telephones, and are controlled by the Red Command, the city's main organised crime gang. Evidence is also emerging of police involvement.

Mr Sergio Quintella, a local businessman whose son was released last week on a \$330,000 ransom after 49 days in captivity, has made a public appeal for people to come forward with information.

Some victims are starting legal action against the Rio state government for "omission", but Mr Nilo Batista, the state security secretary, said: "Kidnapping is one of the hardest crimes to prevent. In Italy it took 10 years to bring under control."

It is increasingly common to see local business people accompanied by security guards and driving battered vehicles, leaving smart cars in the garage.



Edoardo Volontè, Country Manager Akzo Coatings Italy

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CREATING THE RIGHT CHEMISTRY



NEWS: WORLD TRADE

Japanese investors forced to watch bottom line

THE European and US companies still agonising over that first, tentative investment in Thailand or Malaysia have been left far behind by Mr Toshihiko Sekimoto, Asian general manager at Itochu, the Japanese trading house.

"We may be reducing our projects in Thailand. We have found it difficult to transfer technology and know-how to our Thai factories. We are very interested in Vietnam. India could be interesting," Mr Sekimoto says.

His comments reflect the changing emphasis of Japanese foreign direct investment, often motivated by a ill-defined desire for expansion or in the hope of reducing trade friction and elevating the corporate profile. Now, earnings are falling at home, capital costs are rising, and the stress is on profitability.

These changed circumstances are behind a 27 per cent fall in investment last fiscal year and a further 12 per cent in the first half this year. Companies are reviewing locations and project types - the US and continental Europe are out of favour, developers are selling not buying property, and manufacturers' priority is cheaper production of or assembly of components.

Figures compiled by the ministry of international trade and

Yield is guiding funds abroad, writes Robert Thompson

Industry show that the average return on sales for Japanese investment projects in Asia has been 3 per cent and in Europe 1 per cent, while investments in the US are showing a return of -0.1 per cent. For manufacturing projects, Asia is showing a 5 per cent return, Europe 3.2 per cent and the US -0.9 per cent.

Poor yields on foreign investment could be easily tolerated in the late 1980s, when sales were surging at home, and the gravity-defying Tokyo stock market provided funds at close to zero cost and allowed companies to supplement core earnings with quick profits on

stock sales.

However, Nikko Research estimates that manufacturers' operating profit margin this year will average 3.1 per cent, down from the previous lows of 3.2 per cent in 1986, post-Plaza Accord (which caused a sharp rise in the value of the yen), and the oil shock-affected 4.5 per cent in 1975.

One side-effect of the "bubble era" was an expansion of investment within Japan by the electronics, machine tool, and car industries, which have suffered some of the largest falls in profit over the past year and are under extreme pressure to relocate facilities in

lower-cost countries.

Mr Yuji Hosoya, deputy director of international business at MITI's industrial policy bureau, says the erosion of core profits has forced manufacturers into "survival" investment elsewhere in Asia. That trend can be seen in the jump in Chinese projects from 165 in 1980 to 246 last fiscal year.

Over the same period, Asian countries' share of new Japanese direct investment rose from 12.4 per cent to 14.3 per cent, the US share declined from 45.9 per cent to 43.3 per cent, and Europe from 25.1 per cent to 22.5 per cent - the UK

share fell from 12 per cent to 8.6 per cent.

The pace of change has quickened markedly this year. Investment in China is likely to double from the \$573m of 1991, while investment in continental Europe is expected to be about 30 per cent lower, with a smaller decline in the UK. Asia is generally an increasingly popular site for new projects, but companies are more strategic in choosing a site for investment, and no longer motivated by the desire for a factory in every country.

In emphasising the need for better returns, Mr Sekimoto explains that Itochu has a textile spinning mill in Thailand and another in Vietnam. The Thai plant has about 2,000 local employees and requires 22 Japanese specialists, while the Vietnamese plant has 1,700 staff and no permanent Japanese managers, but is 2.5 times larger than the Thai factory.

He says lower salaries in Vietnam add to the attraction of that country as an investment site: "A monthly salary in Thailand is between \$70 and \$80, but in Vietnam it is \$20. The Vietnamese are twice as productive, which makes them eight times cheaper than Thai workers."

Japanese companies are keen on China because of increasing access to the flourishing domestic market and because it is a suitable low-cost centre for assembly or components production for the international market. They are not rushing to sign contracts in Hanoi, as concerns remain about infrastructure and legal protection, but Vietnam will experience a long-term increase in investment while the flow of money slows to other countries.

The resumption of Japan's official development assistance to Vietnam last month provided extra encouragement to investors.

Mr Sekimoto provided another clue to the future flow of Japanese funds in Asia. He has devised a rough scale of worker productivity, based on his experience with projects in the region - Indonesia and Malaysia are at the bottom, rating a 1, India and Sri Lanka 1.5, Thailand 2, Japan and China 3.5, Korea 3.5, and Vietnam 4.

"One thing I found in Bangkok is that some workers would leave us after only a year and boast that they had been trained by a genuine Japanese company. It is important that workers want to go on learning," he said. "If you go to Vietnam, there are a lot of book shops. They are always wanting to learn."

France targets third world

By William Dawkins in Paris

FRANCE is planning to increase its development aid budget to help stimulate third world markets, Mr Michel Sapin, its finance minister, said yesterday.

By the end of the decade annual aid spending would be raised from last year's 0.56 per cent of gross domestic product, or FF30bn (£3.64bn), to 0.7 per cent, he told a meeting of advisers from the Direction des Relations Economiques Extérieures, the state foreign trade board.

Its current aid budget, which has risen by 6 per cent a year over the past decade, is already well above the 0.31 per cent average for the Group of Seven richest industrialised nations. "We are aiming to ensure durable development in these countries," he said.

At the same time Mr Sapin recognised that budget constraints would oblige France to be more selective in channeling aid. Concessional finance would be limited to the poorest countries. Sales to other mar-



Sapin: recognised constraints

kets would be offered export credit insurance through the Coface state organisation according to those countries' risk premiums.

Mr Sapin was speaking on the second of a five-day gathering of the trade board's 172 foreign-based economic counsellors, called as part of a campaign to improve its sensitivity to the needs of French exporters and companies planning foreign investments.

Halcrow in HK project

HALCROW Asia Partnership has won the contract to design two stretches of railway tunnel, totalling 2.65km, between Hong Kong and the new airport at Chek Lap Kok, Andrew Baxter writes. The company is part of Halcrow, one of Britain's largest consulting engineers. Construction should begin in about 12 months.

Malaysian power

Tenaga Nasional, the partially privatised Malaysian electricity utility, has signed a \$272m (\$109m) contract with Marubeni of Japan to build a gas turbine power plant, writes Kieran Cooke in Kuala Lumpur. Construction will start immediately at Malacca on peninsula Malaysia's west coast, and is due to be completed by the beginning of 1994.

OECD EXPORT CREDIT RATES

Minimum interest rates for officially supported export credits (%)

	Dec 15 - Jan 14	Nov 15 - Dec 14
D-Mark	8.168.24	
Equ	9.16	9.35
French franc	9.33	9.77
Guilder	8.30	8.35
Guilder	8.30	8.40
Italian lira	13.16	14.28
Yen	5.50	5.30
Swiss franc	14.02	14.61
US dollar	8.10	8.80
US dollar	7.18	7.37
US dollar	6.14	5.64
US dollar	7.04	6.60
US dollar	7.49	7.15

Up to 5 years.
More than 5 years.
These rates are published monthly by the Financial Times, normally around the middle of each month. A premium of 0.5 per cent is to be added to the credit rates when funding is bid. Interest rates may not be fixed for longer than 120 days. SDR-based rates of interest are the same for all currencies. The SDR-based rate was changed on February 15 to 8.16 per cent. It will be subject to change on January 15, 1993.

Japanese tips for chip makers

By Michio Nakamoto

THE first Japanese trade mission to Europe of semiconductor users has arrived in Paris to teach European microchip manufacturers a few tricks on how to sell their goods in the fiercely competitive Japanese market.

"I believe the Japanese semiconductor market is open and freely accessible," said Mr Nobuo Kanoh, executive deputy president of Sony, the Japanese consumer electronics and entertainment group, who is heading the mission.

Poor communication has meant Europeans are not well enough informed of Japanese market needs while the Japanese often do not know what Europe has to offer.

Europe's share of the Japanese chip market is estimated at between 1-3 per cent. This compares with about 16 per cent of the European market held by Japanese companies, according to Dataquest, the high-technology consultancy.

As well as insufficient information about what Japanese users require, European suppliers are hampered by a lack of recognition in Japan. They also need to meet Japanese standards in terms of delivery and after-sales service.

For example, Sony has difficulty obtaining European components for miniaturised consumer electronics products, such as the Walkman, which are key Sony products, said Mr Klaus Wangerlin, general manager of European procurement at Sony Europe.

Mr Ernie Pusey, sales and marketing director of GEC Plessey Semiconductors, the UK company, believes the secret of success in Japan "is having Japanese people on the ground employed by your company". Engineers who speak Japanese are crucial.

Having unique products also helps. GEC, which manufactures specialised rather than commodity products, has seen sales in Japan double to about 4 per cent of total turnover and expects the same in the current year.

So far there is no official target for European market share in Japan, although an unofficial figure of 5 per cent is talked about.

Steel back in the melting pot

By Nancy Dunne in Washington

SINCE announcing the restart of the Multilateral Steel Agreement talks - in Geneva today - US trade officials have steadfastly denied any connection with the 84 dumping and subsidy cases filed by the nation's steel industry.

They say they want to break the cycle of trade cases and restraint agreements, but to do so they must provide effective disciplines on trade distortions. The MSA talks are to deal with future dumping and subsidies, while the steel cases are considered protection against uncompetitive practices.

When the talks broke down on March 31, the negotiators had generally agreed on phas-

ing out tariffs over a 10-year period, prohibiting non-tariff barriers and setting up a mechanism for settling disputes.

However, the talks foundered on the EC's wish that subsidies be allowed to continue for research and possibly for development, plant closure, workers' assistance and environmental compliance. The US also refused to give advance notification before unfair trade cases were filed.

Breakdown coincided with the end of seven and a half years of quota protection for the US industry, leaving it free to pursue unfair trade complaints. Many analysts expect demands from foreign governments for further political "suspension agreements" - resulting in market-sharing of

sorts in exchange for the dropping of the unfair trade cases - after the Commerce Department announces steep dumping margins next month.

Steel producers insist they will follow the cases to their conclusion and will not be pushed into accepting a deal.

The International Trade Commission, which must find evidence of injury before anti-dumping and countervailing duties are made permanent, cannot be relied on for support.

US steel prices are very depressed, but the cause could be attributed to the recession and over-supply rather than foreign steel. It is not impossible that, under pressure from a new administration, the industry will agree to quotas, providing price floors are built in.



Racing Driver Bernard Santal of Ste. Maxime, France, fails to win over his baby daughter Sarah.

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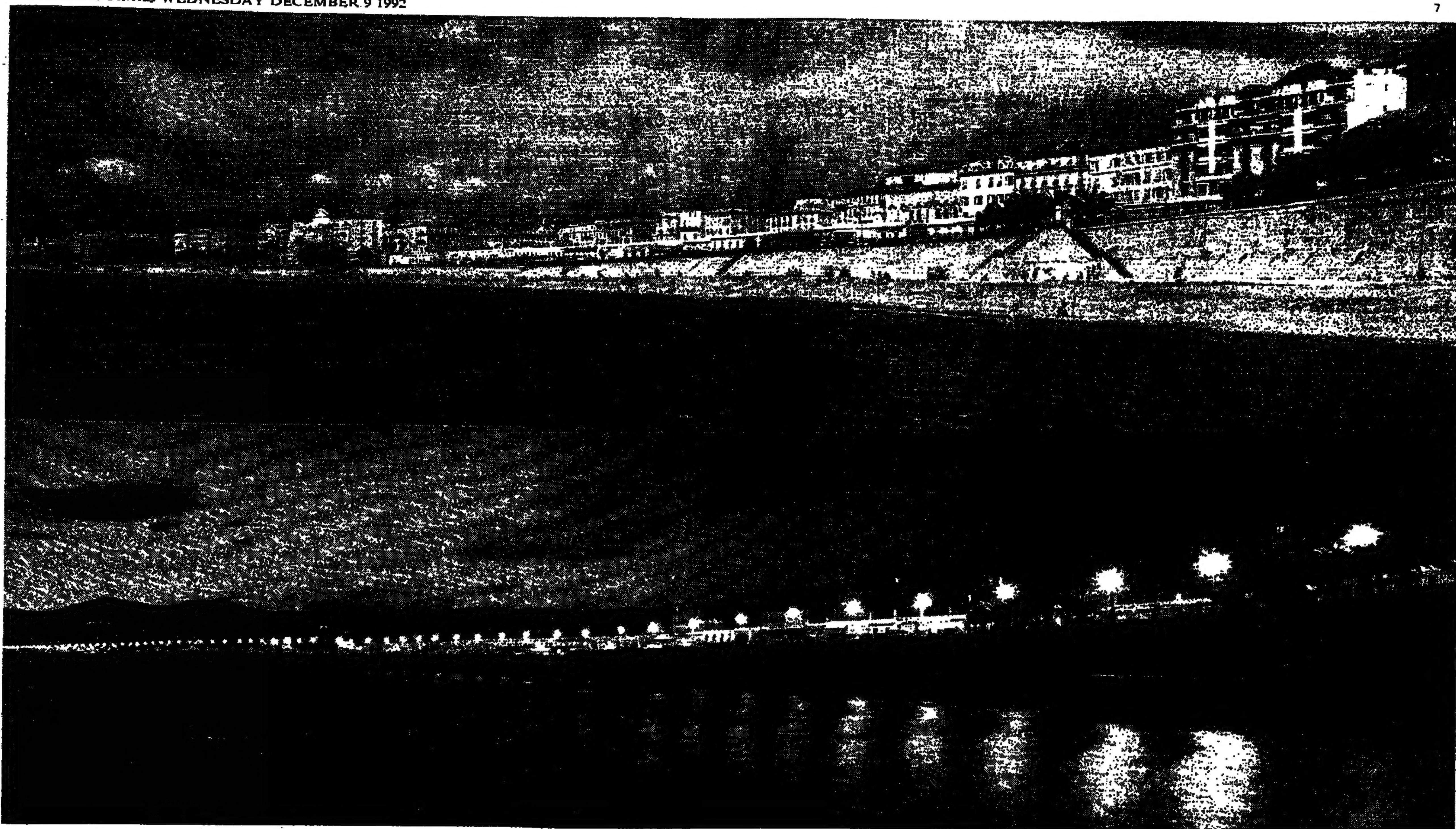
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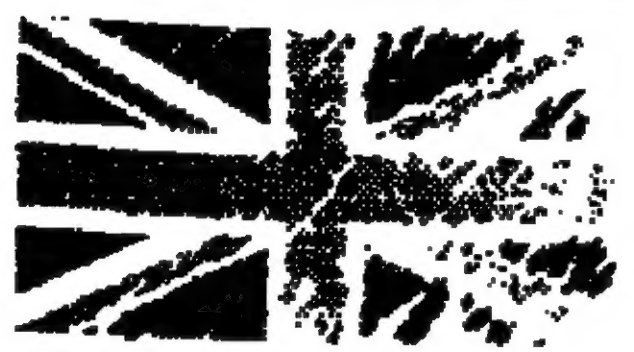
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NEWS: UK

Britain in brief



Olympic arena wins £35m grant

The government announced the largest city grant for a single project - £35.5m towards an indoor arena as part of Manchester's bid to stage the 2000 Olympic games.

The £50m arena will be part of a £200m redevelopment of Manchester's Victoria Station - a city centre rail terminus - by Vector Investments, part of the Bovis construction group.

Plans include a glassed-in concourse with shops and cafes, a 40-storey tower block housing a 1,000-seat conference centre and offices, with a five-star hotel on the top 12 floors.

Ulster bomb costs to be met

The Treasury is to underwrite any extra costs incurred this year by the Northern Ireland Office in compensating for terrorist damage in the province - but is still resisting any help for insurers on the UK mainland, saying there is no parallel between Ulster and the situation on the mainland.

French trawlers meet blockade

Fishermen continued their blockade of Lochinver, in Sutherland, west coast of Scotland, to keep out French trawlers.

Fifteen boats were lashed together across the entrance to the harbour. A large French vessel with engine trouble lay inside the blockade and eight 60-metre French boats were outside the harbour. None tried to beat the blockade.

The Scottish fishermen are angry about EC rules which allow foreign boats to land haddock and cod at Lochinver when local vessels are prevented from doing so because they have filled their European fishery quotas.

Lawyers back plea bargains

Nearly 90 per cent of barristers (lawyers who appear in higher courts in England and Wales) and two-thirds of judges are in favour of the introduction of a formal system of plea bargaining according to a survey of Crown Court trials conducted by the Royal Commission on Criminal Justice.

The study, based on questionnaires to all the participants in every Crown Court trial in England and Wales during the last two weeks of February, found almost unanimous approval for the jury system.

TSB to cut 400 jobs again

The Trustee Savings Bank disclosed that it expected to nearly double the number of staff redundancies caused by the merger of its banking and insurance operations by making 400 junior branch managers redundant in the new year.

The bank, which announced last month that it was making 440 staff redundant, said the merger of operations into TSB Retail Banking and Insurance together with the downgrading of 200 branches had left it with surplus junior managers.

Ford car price rise provokes wide protest

By John Griffiths

FORD yesterday announced plans to increase car prices by between 4½ per cent and 10 per cent, surprising the industry and provoking consumer group and political protests.

Ford, which has been heavily loss-making and whose UK market leadership is under severe pressure, blamed the increases on sterling's devaluation and other cost increases.

The price rises, effective from January 3, are larger than any so far imposed or indicated by other manufacturers, even German importers most badly hit by devaluation.

They drew protests from the Consumers' Association and opposition politicians that Ford appeared to be seeking to lead a move for the industry, not consumers, to reap the benefit of the recent abolition of 5 per cent special car tax.

Ford rejected the allegation, claiming: "Our costs have risen far more than the increases we have put forward as a result of the devaluation."

Nevertheless, its move was being seen as a potentially risky gamble by some industry analysts last night. Vauxhall is challenging its leadership. With other rivals professing little inclination towards further rises, Ford may find itself isolated while bearing the brunt of consumer criticism over the already stormy issue of perceived high UK car prices.

Rover Group said it had no plans to raise prices, as did Vauxhall, which announced a 3.25 per cent rise just before car tax was abolished.

German manufacturers have already put up prices and may increase them further in the

New Year. However, BMW and Mercedes have indicated ceilings of around 6 per cent.

Starting has been devalued by about 11 per cent against the D-Mark and Ford UK, which lost \$761m last year, has undoubtedly been hurt by it.

Even so, its £214m balance of trade deficit last year was arrived at after imports totalling £2.48bn were mostly offset by exports of £2.27bn. So arguably its has been less badly hit than some rivals.

Mr Stephen Locke, the Consumers' Association's director of policy, said last night Ford's move "confirms all our worst fears about the manufacturers' desire to see the UK as a high-price, high-profit market."

Prof Garel Rhys, professor of motor industry economics at Cardiff Business School, suggested the rises may indicate a strategy change by Ford.

"It may well mean that, having accepted that its one-traditional 30 per cent share is history, it has decided that even a 25 per cent share is not worth buying and that it is better to settle for 20 per cent with sales that are profitable."

With Ford reportedly planning to cut up to 10 per cent of its 97,000 European workforce soon, its apparent willingness to trade sales for higher prices seems likely to renew speculation about whether it might be preparing the ground for a plant closure.

But this remains extremely unlikely. Ford has consistently denied any such intention and most analysts believe that a longer and deeper European car market recession than is currently forecast would be needed to justify any major closure.

Generators may have to burn more coal

By Michael Smith

LAWs requiring electricity generators to use more coal are among options being considered by the government in its efforts to keep open some of the 31 coal pits earmarked for closure.

Mr Michael Heseltine, secretary for state for trade and industry, also disclosed yesterday that his department is looking at cutting the cost of British coal through subsidies or further levies on consumers.

He told MPs that it was a "genuinely open review" and that the government had not reached views on any of the 15 areas for action which had been identified by the review team.

Many of the options, however, were subject to European Community and international constraints.

Those constraints were highlighted separately yesterday when Mr Cardoso e Cunha, European energy commissioner, told a House of Commons select committee that the UK would have to reduce the nuclear levy, raised among electricity consumers, if it wanted to subsidise coal.

The review is likely to include consideration of the "dash for gas", major power stations, and electricity prices. Other areas for investigation include:

● Reducing coal cost production through changing working practices and privatising pits.

● Trade in coal, through increasing exports of British coal and substituting imports, and in electricity, through the interconnectors.

● The impact of environmental commitments, including those relating to carbon emissions and desulphurisation, and opencast mining.



Police yesterday launched an investigation into an arson attack which destroyed the Shree Krishna Hindu temple in West Bromwich, in the English Midlands. Other attacks against Hindu centres came in Birmingham, Bolton, Bradford, Coventry and Derby. Meetings were held to allay fears that tensions in India, following the destruction of the mosque in Ayodhya, might spread to the UK.

SURVEY OF INTERNATIONAL FUEL COSTS

Gas price up 4.2% for industry users

By Deborah Hargreaves

LARGE industrial users of gas in the UK have seen their fuel costs rise by 4.2 per cent in the past year while British Gas has been cutting prices to domestic customers. The increase was the second highest recorded in a survey of international gas prices by National Utility Services.

British Gas has raised the price for companies receiving an interruptible service which means they can be cut off at short notice and for which they have traditionally paid very low prices.

"Any UK manufacturing company on an interruptible contract would not be at a competitive advantage compared with its competitors in the countries we surveyed. In

fact it would be at a major disadvantage," said Mr Andrew Johns, director of NUS.

Overall, the UK ranks sixth out of nine countries when comparing the price charged to business users. But NUS stressed that it is in the bulk-volume, low price sector of the industrial market which has not been penetrated by rivals to British Gas, where prices are rising most rapidly.

German industrial users, however, have seen their gas costs reduced by 22 per cent over the last year. The UK has been beaten only by Belgium which raised gas prices by five per cent last year. Sweden is the most expensive country in gas costs to big users.

Mr Ian Powe, chairman of the Gas Consumers Council, who warned on Monday that

big users would face substantial price increases said: "The survey tends to confirm the view that some sectors of the industrial market are seeing no benefit from competition."

Mr Cedric Brown, chief executive of British Gas, stressed that domestic prices for gas had fallen by over 20 per cent in real terms since 1986. At the same time, contract prices (to non-interruptible industrial users) had dropped by 25 per cent in real terms.

Meanwhile electricity bills in England and Wales should see a small reduction starting next April as a result of a cut in the fossil fuel levy.

Prof Stephen Littlechild, the electricity regulator, announced yesterday that the levy on bills will be cut from 11 per cent to 10 per cent. He said:

"This should help suppliers keep prices to customers down."

● British Petroleum is to cut petrol prices by 13.6p a gallon - 3p a litre - with effect from midnight tonight, ending the steady increase in prices since September.

The reduction reflects falling oil prices and the strengthening of sterling against the dollar. World oil prices have fallen by almost \$3 a barrel since October.

● Construction of a £200m gas pipeline link between Scotland and the Irish Republic will begin in February following yesterday's signing of an agreement in Dublin. The project to lay the 179-mile pipeline - most of which will be on the Irish seabed - got the government go-ahead last year.

Treasury includes fierce critics in panel of outside advisers

The British Treasury is breaking with convention by appointing a panel of outside economists to advise it on the economy.

The panel includes some of Britain's best known economists, including some who have been

fierce critics of the Treasury's record on economic management during the late 1980s boom and the continuing recession.

The panel will meet three times a year and give a range of views on the economy to officials,

headed by chief economic adviser Alan Budd. A detailed report will go to Mr Norman Lamont, the chancellor of the exchequer, and another report, almost certainly not the same one, will be published.

Behind the idea of the panel, which is to meet for the first time in January or February of 1993, are the attacks on the Treasury for misreading the economy over the past few years and getting its forecasts wrong.

By opening up the department to a greater range of outside views, the Treasury hopes to take practical steps towards better understanding of economic trends.

The panel's establishment

is expected to counter criticism that the Treasury's management style is too introspective. It is also hoped that it will counter criticism that not enough weight is given to opinion from non-government economists.



Prof Patrick Minford of Liverpool University



Prof Wynne Godley of Cambridge University



Gavyn Davies, chief UK economist, Goldman Sachs



Prof David Currie of the London Business School



Andrew Sentance of the CBI, the employers' group



Andrew Britton of the National Institute



Prof Tim Congdon of Lombard Street Research

Former Treasury economist and another member of the monetarist Liverpool Six. Like Congdon, scornful of Treasury performance in analysing the economy but disagrees with him about the correct way to measure the money supply. Ardent free-market thinker who says he would have liked to have been Gladstone, the tariff-cutting 19th-century UK chancellor of the exchequer. More accurate than most economists in recognising early on the extent of the recession, but was not particularly prescient in warning of the late 1980s boom.

Arch-dissident of the economics profession. Has since the 1970s predicted long-term problems for the UK economy arising from weakness in manufacturing and tendency for UK to suffer large current-account deficits. Nicknamed "Gloomy Boots" by some of his students, his lectures can sometimes be hard to understand. His forecast in May 1991 that the UK economy would contract by 2.7 per cent last year and by a further 0.9 per cent this year has turned out more accurate than any other projection made by a mainstream British economist.

The thinking person's economist; former Downing Street adviser in 1970s Labour government; since made his fortune with one of the world's top-rated investment banks. Rarely at a loss for a cogent phrase on the economy, Davies is one of the slickest performers in forecasting and is highly rated in the Treasury. Was too quick to forecast an imminent recovery at the end of last year; now reckons demand picking up but likely recovery next year will probably be patchy. Sees opportunities for further cuts in interest rates to help an upturn.

Well-connected economist who in mid 1980s informally advised Mr Roy Hattersley, then Labour shadow chancellor. Has advised the Treasury, Bank of England and International Monetary Fund and is now in fifth year of running LBS's economic forecasting unit. In recent years LBS's forecasting record has been poor, although the inclusion of Currie in the panel and its exposure to competitive forces in the forecasting business might sharpen up the unit's performance. On good terms with Sir Terry Burns and Professor Alan Budd of the Treasury.

At 34, the youngest member of the forecasting panel. Has worked for six years in CBI's economics department, now director; noted for his ruminative style but not the most scintillating public speaker. Did his doctorate at London School of Economics on "government as an employer". Before that was management trainee at National Coal Board, and a manager at a petrol station. Has led CBI research in past two years on putting the case for more government action to help manufacturing. Also an expert on government statistics.

Thoughtful though somewhat dour economist who for past 10 years has headed what is probably Britain's best-known economic forecasting organisation outside the Treasury. Interested in important though not always fashionable areas such as factory training. Worked for Treasury for 16 years but not afraid to criticise it; thinks it should be split into two to separate public spending and economic policy roles. Patchy forecasting record. Among relative optimists about growth next year, which he thinks could be up to 2 per cent.

Former journalist on The Times who has shot to prominence in recent years for monetarist theories and fierce criticism of Treasury's analysis. Started forecasting in mid 1980s with London stockbroker L. Messel, and warned of high inflation in late 1980s as a result of housing boom. Over past three years has turned out trenchant comments about economic scene under the banner of his own independent economic research body. Member of Liverpool Six, monetarists who campaigned for UK to leave the European exchange rate mechanism.

Britain exhibits classic signs of depression

Emma Tucker puts the economy in the psychologist's chair in pursuit of a cure to the illness of recession

THE UK is behaving like a depressed person, immersed in the gloom of recession.

The small incentives offered by the government in the Autumn Statement are not enough to chivy it out of its economic sluggishness.

This, at least, is the diagnosis of a number of social psychologists. The media reinforces harsh messages so that even those with safe jobs and safe homes have become nervous.

This does not mean that cheerier news bulletins would jolt us out of our economic torpor. After all, the chancellor of the exchequer Norman Lamont's promise of "green shoots" of recovery last year probably made things worse by increasing the level of cynicism among consumers and businesses.

Psychologists addressing the issue of consumer confidence believe it will take a long time

for the country to break out of its recessionary frame of mind.

Dr James Thompson, senior lecturer in psychology at London University, believes we are heading for the decade of "making do". The classic "freeze" response to fear has enveloped us as a nation. The insecurity, he says, is compounded by people feeling they have been conned by various statements about the economy.

Caution among consumers is matched by prudence in the financial and business world. Mr Nigel Nicholson, director of the Centre for Organisational Research at London Business School, points out that risk-takers retreat into the woodwork during a recession leaving only the boldest of entrepreneurs to take risks.

Here another vicious circle develops. "Entrepreneurs go to banks which are peopled by non-risk takers. They become even more cautious during a recession, so it is very difficult

to raise finance," Mr Nicholson argues that, coming out of recession requires boldness on the part of people who are institutionally cautious.

"We can rely on entrepreneurs to get us out of recession, but only if they are supported by the people with the funds," he says. "Risk takers will still look for risks to take even in a situation where there are not many."

The success of the risk-takers will gradually spread, as they are imitated by more cautious members of society. He is confident that the process will take its natural course.

Dr David Good, a social psychologist at King's College, Cambridge, is less certain. The situation has become too confused this time round for confidence to take its usual recovery course, he says. "People's worlds have become muddled so that they no longer know the rules. They find they can be model employees but still

lose their jobs."

Dr Good favours shock treatment. One solution, he suggests, would be the classic Keynesian approach of spending on public works. "If money is spent publicly it gets a wider appreciation and people's experience of public life - travelling, walking in the park, going to hospital - becomes less tedious. They get a very real sense of life being nicer."

Dr Thompson is another proponent of radical change. "One has to make quite a substantial change to make people confident again," he says.

"I argue, as a psychologist, that the best way of getting confidence back is to show people there is a functional relationship between what they are doing and what the country needs," he says.

In a fragmented economy this would not be an easy task, but he believes a switch away from service industries

towards exportable manufactured goods would improve sentiment. In addition, national objectives would give people a greater sense of purpose - rather as it did during the second world war.

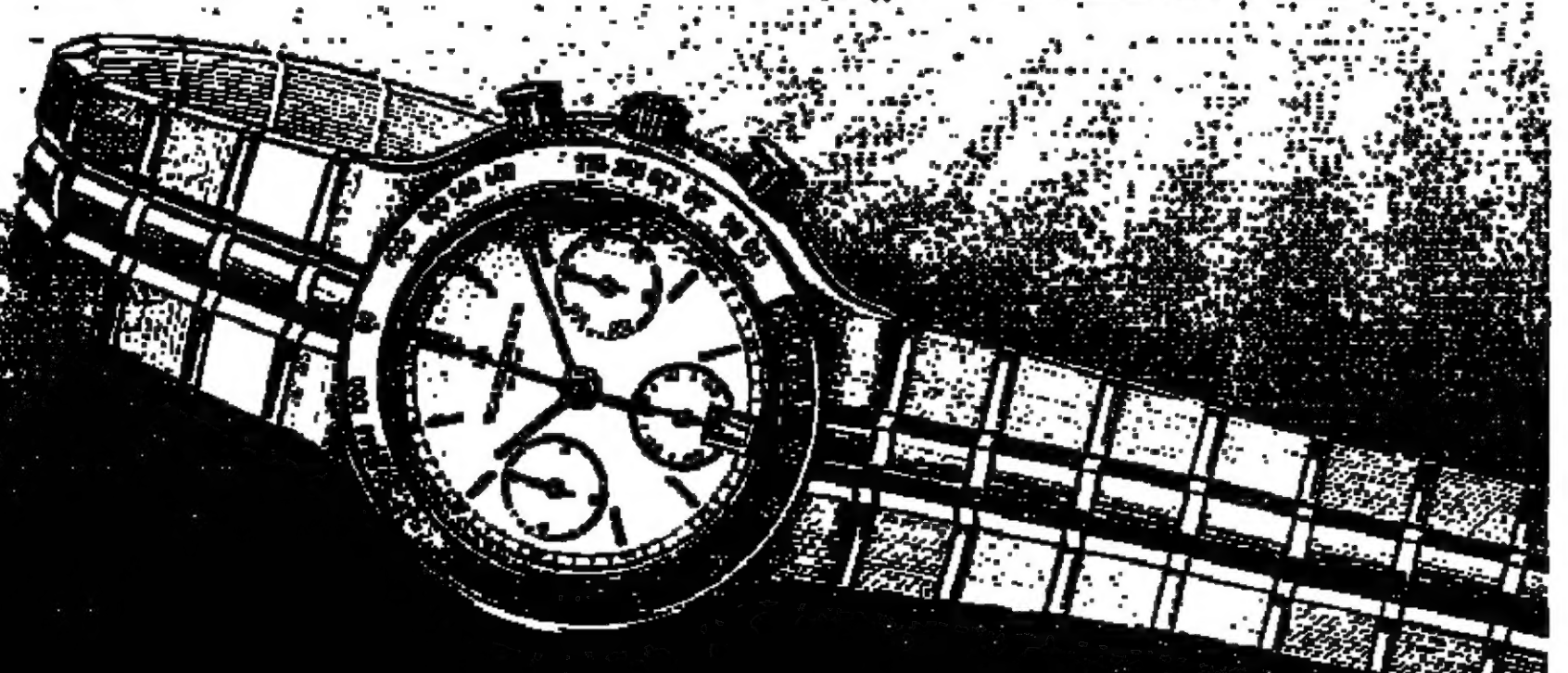
However, fuel, food, housing and transport targets, are unlikely to become part of this government's policy.

Many retailers have concluded that there are no short-term solutions to the problems of the nation's damaged psyche and that we are in for a sober decade. Kingfisher, the stores group, has produced a report entitled Retail 2000 which looks at the legacy of the 1980s and considers the "older, wiser and more cynical" consumer of the 1990s.

Kingfisher concludes that the result will mean an ever more cautious approach to spending, and a long period in which people live within their means, save more, buy less on credit and less on impulse.

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New head's Guinness

Future management histories of Britain's National Health Service will devote chapters mulling over whether the use of the term "market" helped or hindered last year's reforms.

Conservative politicians certainly took fright at it – even in its tamer, modified variants such as "internal market" and "managed market" – as opponents drove home claims that the government was commercialising the service.

The term had the benefit of signalling to the managers of Europe's largest employer, with around 1m staff, that last year's restructuring went beyond previous administrative reorganisations and involved a completely new way of running the NHS.

But there remains confusion among many managers about precisely what sort of market they are in and what the norms and limits of market behaviour ought to be when managing a public welfare service. The answers to these questions will determine how the reformed NHS develops.

Duncan Nichol, the NHS chief executive, addresses the issue by introducing another variation to the lexicon of market themes.

"We are operating a social market," he says, "and while there is plenty of information about how free markets operate, we know much less about social markets. People from other public sector systems are already coming to us and trying to learn from our experience."

The NHS reforms have separated the functions of purchasing and providing healthcare and, through the establishment of self-governing trusts, given more decision-making power to local managers.

Many of the questions about the nature of Nichol's social market turn on the extent to which these managers should be allowed to behave in a free-spirited, competitive way.

"Regulating the market, developing it, purchasing and monitoring providers – these are the issues and it is important to achieve the right balance between them," he says.

Nichol says he "does not want to be crawling all over the thing", stifling development and vitality. "We don't want to over-regulate and lose all sense of competition." But the NHS social market exists to deliver a public service, he adds, and his central management executive must retain enough control to enable it to intervene if any local developments appeared to be against the public interest.

The balance is not an easy one to achieve but the government will try to provide a structural solution soon when Virginia Bottomley, health secretary, makes decisions

The radical restructuring of Britain's health service has forced managers to balance free market principles with public service ethics. Alan Pike reports

NHS reform is a tricky operation

about the future powers of regional health authorities and how they will fit into arrangements for keeping an eye on trusts. Some of the more pioneering trust managers expect the government to retain more involvement in the market than they would wish.

A survey published last month by Arthur Andersen, management consultants, asked senior NHS managers what they saw as their most fundamental future challenges.

While some of the responses – including handling next year's community care reforms successfully and meeting the requirements of the government's Patient's Charter – accord with Nichol's priorities for the coming year, the managers also raised "making the market function without undue influence from the centre in the face of questionable political will" as a problem.

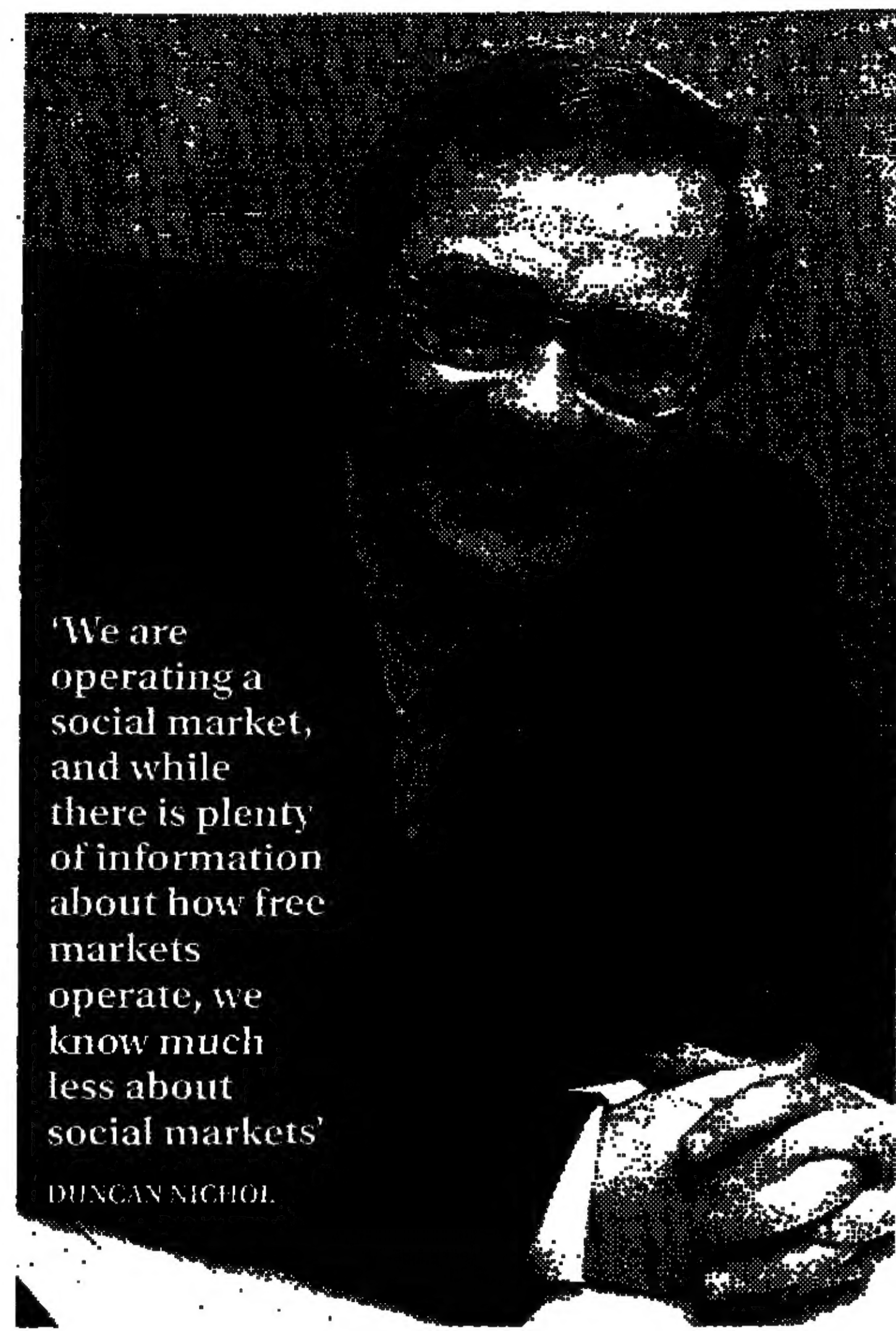
The market mentality may have already contributed to at least one undesirable side-effect in NHS management. Last summer, Nichol had to warn his management team away from adopting a "You have an hour to clear your desk" syndrome in their handling of staff changes arising from the reforms.

"It is an attitude that some people might think they are borrowing from the private sector," he told the Institute of Health Services Management conference disapprovingly.

Since then, several other local difficulties in the NHS management have received widespread publicity. John Wilby, chief executive of the London Ambulance Service, resigned following the failure of its new computerised control system.

A National Audit Office report has criticised serious shortcomings in financial controls in West Midlands and Wessex regional health authorities – in the former case over a consultancy exercise and in the latter an abortive \$45m information technology programme.

The NAO report added that the transfer of part of Wessex's IT function to private companies, staffed largely by former employees, had



not been in the interests of the region.

Does Nichol feel the perceived pressure of the market is again encouraging managers to believe they have to borrow values from the private sector, taking risks and

gambling and adopting management styles that are inappropriate in a public service?

"I don't think it is a question of managers feeling they need to imitate the private sector. But we have been working to a very crowded

agenda during the introduction of the reforms and NHS managers have to realise they must get the basics right in order to earn the legitimacy to explore the bigger agenda, he says.

"Sound management of public money and attention to administrative detail are important components of getting the basics right. The normal ethics of public sector management remain the entirely appropriate standards for managers in the NHS."

The team of front-line decision-makers in the NHS management is increasing annually. A further 128 hospitals and other services will become third wave trusts next April, taking the total to 284. Still more trusts will be formed in a fourth wave a year later.

Many of the most competent exponents of the managerial freedoms offered by trust status were among the first and second wave applicants and the sheer size of the NHS makes patchy management an inevitable problem.

Nichol says the criteria for deciding whether a hospital's managers were capable of taking on self-government were not lowered for the third wave. If problems arose over the 1994 fourth wave, he would prefer to take an extra year developing management skills rather than launching units into trust status before they were ready.

Next year, the unwelcome terrain of a tight financial regime will be added to the obstacle course in which Nichol's managers are trying to reach the goal of a more efficient service.

For the past three years, health has benefited from more generous annual funding settlements than most other Whitehall departments to help smooth the introduction of the reforms. Next year will be different. The best prospect – if the government's inflation expectations hold good – is for a 1 per cent real terms increase in funding.

This message has been communicated by Nichol to NHS managers, not as a policy for containment but as one for growth. He expects his management team in hospitals and health authorities to deliver a 2.5 per cent increase in treating patients.

This will be possible only if they hit what he describes as the "challenging but achievable" target of augmenting the extra government cash with another 2 per cent in efficiency savings from achievements like treating more patients with the same resources.

For seasoned managers, it will be just like old times. Although the structure is different, the real test of an NHS manager has always been his or her success at keeping the system running when the money is tight.

Finance chiefs called to account

Wendy Moore looks at why women accountants leave hospital jobs

The secret of attaining a top financial job within the NHS is the ability to drink. Marilyn Palmer was advised early in her career. "If you can't hold your liquor you will never be a director of finance," counselled one senior manager.

Despite eschewing what she calls the "boys club" culture represented by such attitudes, Palmer has successfully scaled the health service ladder from her first job 12 years ago as a clerk to her appointment last year as director of finance for the Anglian Hospitals NHS trust, responsible for the £25m budget of seven hospitals in Great Yarmouth.

But it is a lonely position. Figures from the Department of Health show that although 61 per cent of NHS finance staff are women, they hold just 9 per cent of the top grade finance director posts in health authorities and NHS trusts. The findings of a study commissioned by the health department's women's unit go some way towards explaining why.

The study, carried out by the Chartered Institute of Public Finance and Accountancy, shows that of 208 women who qualified as chartered accountants in the NHS between 1980 and 1990, 31 per cent have left. Of those, the biggest group – 30 per cent – went to local government, 24 per cent left to start families and 21 per cent joined the private sector.

Asked why they left, "personal reasons" were given by 20 per cent but salary came second at 17 per cent. One in five cited lack of career development or job satisfaction.

But most alarming is a general perception that women's careers are systematically blocked. More than 70 per cent of those who

leave believe they faced barriers to progression within the NHS and 83 per cent of those who stay agree. Among the obstacles given are direct discrimination, out-moded attitudes, absence of childcare and a culture where long, inflexible hours – 50 to 70 a week – are the norm.

"It is generally thought that if you have a family you are no longer career minded, especially among male senior managers," says one woman. "It is difficult to get taken seriously by male managers," says another.

Caroline Langridge, head of the women's unit, is promoting a more woman-friendly culture in finance departments. She is also trying to change working patterns that discriminate against female accountants.

There is some evidence of success. All posts are open to job-sharing while flexible conditions, like working from home, are encouraged.

A register has been set up of women in senior positions who want to be put forward for more senior posts. And it is now NHS policy that every job shortlist contains at least one woman candidate.

All this is meant to help boost the number of qualified women accountants and women managers. The latest figures show women slightly outnumber men in studying for accountancy qualifications in the NHS. Women make up 32 per cent of the service's qualified accountants, compared with an estimated 22 per cent a year ago.

Pat Macaulay, head of financial management at the NHS management executive, believes cultural change is the key. But it should come "naturally" as women in senior finance positions become "role models" and she rejects positive discrimination or quotas.



New heads at Guinness

Tony Greener, chief executive of Guinness, who also takes over as chairman from Sir Anthony Tennant in January, yesterday announced a series of senior appointments designed to smooth the management transition at the international drinks group.

Philip Yea (right), 37, finance director of Guinness Brewing Worldwide (GBW), becomes group finance director (designate) and will progressively take over the responsibilities of Ian Duncan, managing director, finance and administration, who retires in the second

half of next year.

Yea joined Guinness in 1994 and held a number of financial posts before leaving in 1998 to become finance director of Cope Allman. He returned to Guinness as director of financial control last year. Michael Kayser, GBW's business development director, will replace Yea as GBW's finance director.

Brendan O'Neill (far right), 44, managing director for the past two years of the international region of United Distillers (UD), the group's spirits company, will switch to the brewing division in February



as managing director of GBW. O'Neill joined Guinness from Midland Bank in 1987 as director of financial control. He was UD's finance director from 1988-1991.

Walter Caldwell, UD's regional director, northern Europe, will succeed him as



md of the international region. Brian Baldock, 58, will remain chairman of GBW, but in his role as Guinness deputy chairman is taking on additional responsibilities for the group's public and strategic affairs, Glenageary hotel, and Guinness Publishing.

Thoms speaks quietly on his move to Verity

Peter Thoms, newly appointed finance director at Verity Group, is suddenly much in demand. Ostensibly people want to talk to him about his new job; really they want the inside story on his old one – finance director of Amstrad, the troubled UK electronics company which founder Alan Sugar is trying to take private in one of the most controversial buy-backs the City has seen for years.

Thoms left Amstrad suddenly in July giving neither reason nor explanation. He felt hamstrung, he complained at the time, but had been asked to say nothing. Yesterday he was only a little more expansive, saying it had been an "interesting period" but refusing to comment on either his departure or the present situation at the former high-flying computer-to-video group.

A chartered accountant by training, Thoms, 47, spent 15 years with Gillette both in Canada and the UK before joining Amstrad in 1989, tempted by its entrepreneurial image. Verity, formerly Wharfedale Loudspeakers, is noted for high quality and high prices. It is also losing money – £2.9m last year. It has just acquired Centrafone Holdings which has the Mission and Cyrus loud-speaker brand names. It is, Thoms believes, a classic turnaround situation; the company now has critical mass to return to profitability, based on the acknowledged quality of British audio equipment.

David Henning, md of Voda, has been appointed a director of YODAFONE GROUP.

Peter Jackson, md of British Sugar, has been appointed to the main board of ASSOCIATED BRITISH FOODS.

Peter Bertram, formerly European finance director and vice-president Europe of Pitney Bowes Finance, has been appointed finance director of AUTOMATED SECURITY HOLDINGS.

Peter Mason, chief executive of Balfour Beatty, has been appointed a director on the main board of BICC.

Linda Weston Smith has been appointed a director of THE BRITISH LAND CORPORATION Ltd.

Colin Fraser, chief executive of McGregor Cory and

chairman of Panoco Storage & Transport, and Rodney Lamball, chief executive of OIL and chairman of Cory Towage, have been appointed to the main OCEAN GROUP board.

Barbara Richmond, formerly finance director of GEC Alsthon's electrical distribution group, has been appointed group financial controller of WHESOE.

Brian Fisher, logistics director of Allied Colloids Ltd, has been appointed director of operations and safety ALLIED COLLOIDS GROUP.

Jean-Francois Chene, md of HEPWORTH's European heating division, has been appointed to the main board. Graham Parrott, company secretary, joins the board of GRANADA.

Hoare Govett analysts

Nick Bunker, a former member of the Financial Times Lex team, and John Russell, a veteran insurance industry analyst, are joining stockbrokers Hoare Govett. The firm is brokering three of Britain's biggest composite insurance companies and has been keen to fill the gap in its insurance industry coverage following the departure of Angela Coad and Chris Hitchens to UBS Phillips & Drew earlier this year.

Russell, who was responsible for setting up Commercial Union's unit-linked life insurance operation, has been a research analyst at Prudential-Bache and most recently has been working as a consulting actuary. Since leaving the

FT Bunker has been corporate development manager at Sun Alliance.

Keith Sheridan has been appointed md of BAIN CLARKSON's North American division; he moves from Gibbs Bartley Cooper North America. Tim Whorton is appointed director in charge of its Leicester office.

Trefor Parry has been appointed finance director of J ROTHSCHILD ASSURANCE.

Simon Coombes has been appointed development director of AEGON Financial Services; George Lukolejewski has been appointed finance director and Steve Dixon a director of AEGON Life Assurance.

The end of another era at BTP

Frank Buckley, who has been the catalyst for change at BTP – once British Tar Products and now a leading maker of lipstick preservatives, beer clarifiers and flame retardants – will, from January 1, drop the chief executive's role. Now 64, he will remain chairman. Steve Hannam, who has headed the chemicals division for 5 1/2 years, will become managing director.

Buckley, a smoker of enormous cigars, says he used to be simply "a good chemist", working in the US for Allied Chemical Corp. he was in at the birth of chlorofluorocarbons. CFCs are now on the eco-hitlist, but he recalls how their use in the \$99.99 air-conditioning system and refrigerators for the masses in the 1960s was a blessing to the world.

He moved to BTP about 25 years ago as a "consultant local director". As the tar business dried up, the old tanks were used to store all sorts of other things, churning out the cash that was invested in chemicals.

When "Pen" Lloyd, the sort of man who hunted with his bones in plaster, died suddenly in 1979, Buckley became chairman and chief executive. But the group has maintained some of the traditions of the Lloyd era; it still holds its annual meeting in early August at the Café Royal – in time for the glorious dash to Scotland.

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As at 29th February 1992, the research, sales and marketing activities of the Agrochemicals and Seeds division of EniChem were transferred to ISAGRO. All production is performed by third parties and that part of the activities transferred to ISAGRO therefore only includes the production control function.

In the year ended 31st December 1991 the turnover of the Agrochemicals and Seeds division of EniChem amounted to Lit 93 billion. The share capital of ISAGRO at the date of transfer amounted to Lit 70 billion. ISAGRO currently employs 119 people located at its offices in Milan and Novara.

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(the "Company")

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U.S. Dollar 800,000,000 4 per cent. Bonds due 1993

U.S. Dollar 800,000,000 2 1/2 per cent. Bonds due 1995

and

U.S. Dollar 350,000,000 4 1/2 per cent. Bonds due 1996

"Adjustments of Subscription Prices"

Notice is hereby given pursuant to Condition 7 of the Warrants that as a result of the issuance of U.S. Dollar 300,000,000 2 1/2 per cent. bonds due 1993 with warrants and Swiss Franc 300,000,000 2 1/2 per cent. notes of 1992-1996 with warrants on 3rd December, 1992 by the Company with the initial subscription price per Share of Yen 1,415 for each of such warrants as determined on 24th November, 1992 being less than the current market price of Yen 1,571 per Share as at that date, the Company has adjusted the Subscription Prices for each of the Warrants as follows:

1. Warrants issued with 4 per cent. Bonds due 1993

1) Subscription Price before adjustment: Yen 2,193.20 per Share

2) Subscription Price after adjustment: Yen 2,188.60 per Share

3) Effective Date of the adjustment: 4th December, 1992 (Japan time)

2. Warrants issued with 2 1/2 per cent. Bonds due 1995

1) Subscription Price before adjustment: Yen 2,594.00 per Share

2) Subscription Price after adjustment: Yen 2,559.80 per Share

3) Effective Date of the adjustment: 4th December, 1992 (Japan time)

3. Warrants issued with 4 1/2 per cent. Bonds due 1996

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BUSINESS AND THE ENVIRONMENT

Japan hedges on carbon tax

By Robert Thomson

When Japan hosted an international gathering this year on the environment, there was concern among industry that the country would be committed to a tax against carbon dioxide emissions.

Instead, the resulting Tokyo Declaration carefully suggested that governments "may wish to consider" a carbon tax and other environmental taxes, but must "keep in mind the impact on international competitiveness". This left the door open for Japan to slap on a tax if it wished.

That door has been shut firmly for the indefinite future by a report from three energy advisory panels to the Ministry of International Trade and Industry, which wants to be seen as green but must also perform its sometimes conflicting role as defender of industrial interests.

The panels' final report suggests that Japan may do more harm than good by introducing a carbon tax. "In the event that such an initiative lacks international conformity, it would invite the international migration of industry," the report says. It also reflects concern that the tax would make Japan less competitive, dragging down economic growth.

Maintaining growth has become a priority for Japanese companies, which have falling profits and are thus trimming staff, salaries and product ranges.

On delivery of the three panels' combined report, Miti said the recommendations would be the foundation for future policy. Rather than highlighting industry opposition to the carbon tax, it preferred that attention be paid to the report's 14 general proposals for a cleaner environment.

These include more use of non-fossil fuels, encouraging environ-

ment-friendly business behaviour, promoting recycling and accelerating the development of technology to protect the environment.

In a "to be considered" category are recommendations that manufacturers refrain from excessive product changes and streamline components. The economic downturn has ensured that this is happening, with companies also using less packaging.

Another consequence of the downturn is a slowing of tax revenue, which prompted the Ministry of Finance to enter the environment debate, having reckoned that a CO₂-related tax would help balance the books. It has considered doubling the petroleum tax. But it has chosen not to hurry the carbon tax debate, leaving Miti to exercise its influence.

The Environment Agency, which tends to represent the government at international meetings, favours a tax based on a scale reflecting the amount of CO₂ emitted, but is not pressing for immediate deployment. Yet an EC proposal to introduce carbon taxes is conditional on the US and Japan adopting similar measures, prompting Tokyo to wonder whether President-elect Clinton will reverse the US stance against the tax. Yoshitake Masuhara, planning director at the EA, says Japan's efforts over the past two decades to reduce emissions must be considered by foreign governments.

"Japan accounts for about 15 per cent of global GNP, but only for 4.8 per cent of emissions. The US accounts for about a quarter of GNP and a quarter of the emissions," Masuhara said. "We are disappointed that the Japanese government has not clearly supported a carbon tax, but we think the tax alone is not enough."

Carbon dioxide emissions 1989

Source: US Carbon Dioxide Information Analysis Centre

US	22.3%
USSR	17.4%
China	10.9%
Japan	4.8%
W. Germany	4.4%
India	3.0%
UK	2.6%
Canada	2.1%
Poland	2.0%
Italy	1.8%
Others	28.7%

A bitter battle over recycling in the US is pitting environmentalists against many manufacturers, especially in the plastics and food processing industries.

The new tension comes from the growing public demand for efficient recycling. While rising public enthusiasm and more curbside collection has boosted the supply of recycled materials, demand for recycled goods is still weak. Many communities pay heavily for recycling programmes only to watch the materials languish unused.

What worries many US industries is that more and more cities and states are adopting complex legislation which calls for industry, rather than local governments, to carry much of the recycling burden.

The state of Oregon, for instance, has adopted a law forcing companies to adopt one of a series of environmentally friendly options:

- Use packaging which contains a certain percentage of recycled materials - 25 per cent by 1995, 50 per cent by 2000.
- Guarantee a similar rate of recycling for the materials in question - by reprocessing the materials themselves if need be.
- Severely reduce the total amount of packaging used.

The twin cities of Minneapolis and St Paul in the state of Minnesota adopted similar, though less restrictive, measures. And a bill even more ambitious than the Oregon legislation was laid aside in Massachusetts only after industry spent \$5.5m (£3.6m) to defeat a plebiscite vote. Other recycling controls are becoming widespread. Eleven states now require newspaper print to contain a minimum of up to 40 per cent recycled content, and another 25 have voluntary programmes.

Nine states enforce "bottle bills", which require beverage companies to ask for a deposit and re-use collected bottles. And 30 have legislation requiring local and state governments to purchase a certain amount of recycled office materials. Perhaps most frightening to opponents of recycling laws, legislation is before Congress which would institute repackaging requirements on a nationwide basis.

"Public pressure is mounting to boost recycling," said Roger Bernstein, director of government affairs for the American Plastics Council. Of all manufacturing segments, perhaps none is more concerned than the plastics industry. Plastic is extremely difficult to recycle, since so many types are used. A mere 2 per cent of the plastic discarded in the US is currently reprocessed.

Moreover, plastic is criticised by many environmentalists for its indestructibility. The rising tide against the plastics industry has it



The amount of recycled newsprint produced in the US rose from 1.9bn tonnes in 1990 to an estimated 2.5bn tonnes this year

Too much of a good thing

As recycling laws take hold in the US, manufacturers have the most to lose, says Victoria Griffith

so worried that it has just launched a national public relations campaign to promote the environmental soundness of the product.

Despite industry concerns, repackaging laws seem to be the wave of the future, and defenders of the measures say they are extremely effective in cutting down on waste. "Several new paper recycling plants have opened up in Oregon over the last few years, and we've seen some real progress on glass," said Joel Ario, director of the Oregon State Public Interest Research Group which sponsored the repackaging legislation.

James River Company, for instance, has just opened its first office supply paper recycling plant in Oregon. Nationally, increased demand for recycled materials has led to a big increase in recovered paper used in newspaper.

At a time when total newspaper production is declining, the amount of recycled newsprint produced in the US rose from 1.9bn tonnes in 1990 to an estimated 2.5bn tonnes this year, according to the American Paper Institute. That figure is set to surge to 3.2bn in 1994. Still, many observers say progress on the recycling front has been driven

more by improved technology than by any increase in demand through environmental legislation.

"We put in a magnetic screening system 12 years ago and just added a non-ferrous metal detector," said Ronald Sprague, plant manager for glass recycling with Owens Brockway in Oregon. "I don't think the new laws make any difference. It's the technology that counts. If someone can figure out how to re-use something cheaply, they will. Our recycling rates are between 60 and 80 per cent for glass in this state, well above those required by law up to the year 2000."

Not all segments have such an easy time meeting targets. Critics say that the new repackaging bills can be too expensive, or simply unworkable. "These sorts of laws can cause chaos," said Carol Bawston, vice president in charge of government affairs for the American Paper Institute. "For instance, some sorts of food packaging - such as for milk - can't use recycled material. There are too many contaminants involved, and it would go against packaging standards set by the federal government to guard people's health."

Similar problems are cited for bot-

tle collection. "Some of the chemicals people used to use to clean the bottles are now considered toxic," said Sprague. "And a lot of small grocery stores have found that they don't have the space to collect used bottles."

Even if more states adopt repackaging laws, environmentalists may face obstacles in getting companies to comply. "Boxes for Wheaties cereal have been made of recycled paper since 1950, just because that was the cheapest material available," said Lawrence Sawyer, director of government relations for General Mills.

"But the actual bag that the cereal is packed in within that box is 100 per cent virgin. It has to be for health reasons. You can pass all the legislation you want, but no one can make us comply if the consumers' safety is at risk."

With both sides arming themselves to the hilt, the battle between environmentalists and industry on the recycling question will probably continue for some time. But with the concept of recycling enjoying high rates of public approval, industries like plastics, bottles and food processors are concerned that, in the long run, they will be the losers.

Plastic in the park

Chicago's Park District did not intend to enter the recycling business three years ago when it untied to refurbish 360 of its neighbourhood playgrounds. Some 3.5m pounds of plastic later, the city has become a model for other communities seeking to convert household waste into indestructible timber substitutes, park benches and play equipment.

The city stumbled into its Plastic On Parks programme after one manufacturer suggested that plastic would survive the hazards of Chicago's winters and gang graffiti better than wood. At first the idea did not seem attractive - plastic was nearly twice as expensive as wood. However, the gap would be halved if the City provided the raw plastic for the programme.

Gathering piles of used milk and soft drink bottles, cleaning fluid containers and plastic shopping bags seemed daunting at first. Chicago had no city-wide recycling programme, but bins were set out at 263 park sports facilities. Residents were encouraged to drop off their empties.

"The first week we collected 400 pounds and thought we had a good programme," recalls Fred White, director of Chicago's parks recycling programme. "Now we're collecting 30,000 to 45,000 pounds per week, and people refuse to let us stop." Parks staff empty the bins and the discards are delivered to a recycler for processing. Private donations provided two new trucks for the programme.

White believes one of the reasons for the programme's success is that people can see the results of their efforts in their neighbourhoods. A unique feature of POP is the city's requirement that plastic given to the processor must return to Chicago.

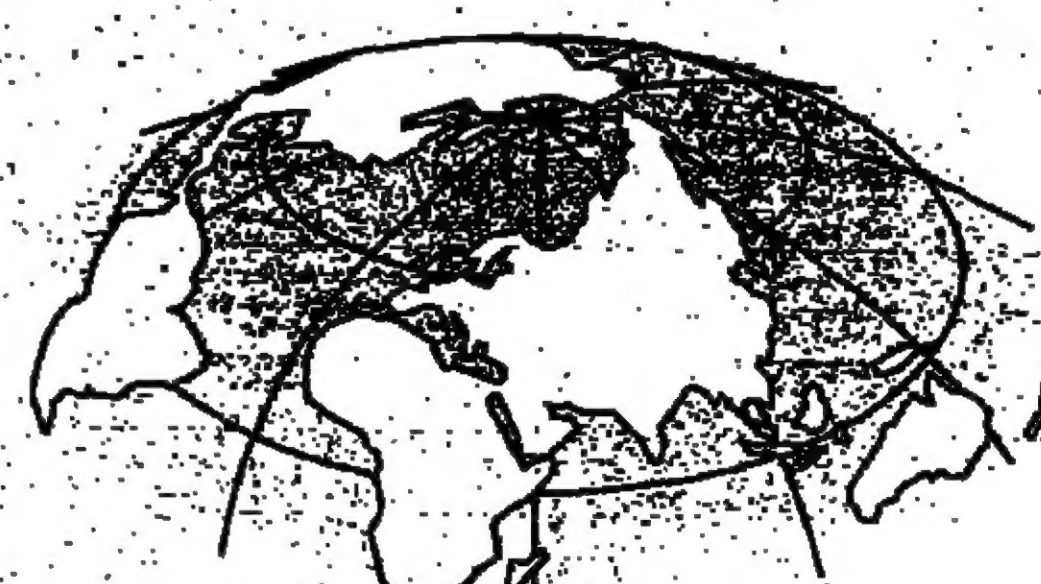
Hammers Plastic Recycling, the Iowa-based processor for the programme, recently opened a Chicago manufacturing facility where it has hired 12 people to help fulfil the city's \$1m (\$200,000) contract.

Ken Iles, marketing director of the company, says the POP plastic is now being converted into basketball backstops, picnic tables and special plastic wheelchair ramps for Chicago's beaches, as well as timber substitutes and park benches.

Laurie Morse

Willem Barents was an expert on astrolabes, but not on double skin ships.

Nestship's fleet of double-hull and double-bottom tankers carries oil, gas, and chemicals worldwide.



Back at the end of the 16th century when the Dutchman Willem Barents sailed through the ice to Spitzbergen, the first man to do so, no one had heard of double-hull ships. Today, double skins are becoming compulsory for tankers as part of efforts to minimize the risk of pollution at sea. They have been incorporated into Nestship's tankers for some 20 years, and Neste's fleet is the first in the world to have all its ships equipped with this feature.

Neste has also been a pioneer in navigation in ice. It is no surprise then that Neste has an exclusive contract to supply Greenland with oil, regularly handles oil shipments to the magnetic North Pole, and was the first shipping company to operate year-round on the Great Lakes of North America.

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NESTE
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This year, 1992, marks the 500th anniversary of the great voyages of discovery. Hung perpendicular to sea level, astrolabes such as this 16th century brass example, were used for calculating a ship's position based on the altitude of the sun or stars. The National Maritime Museum, London.

The most extraordinary hour in the week's television now occurs on the commercial channels at pub closing time on Friday, especially in London and the remote Scottish islands. Channel 4 provides *The Word*, which can be seen anywhere in Britain, and London Weekend offers *Dial Midnight* which is shown in the metropolis and in the Grampian region of northern Scotland. *The Word* is a yoo-f show, its title presumably ironic since its young cockney male presenters have remarkably limited vocabularies. The young female presenters tend, like Madonna, to make underwear the focal point of their outfits: black lace bra under transparent blouse, stockings which end below the hem of the miniskirt, and so on. It is like a meeting between the Brash Street Kids and the girls of St Trinian's. Rap, pop and fame are the subjects.

The presenters on *Dial Midnight*, two anorexic looking girls and the ebullient James Whale (who converted his Midlands radio show into a late night Midlands television show before making this move to London) sit on what appears to be a red rubber hedgehog and discuss the sort of subjects which you find at the extreme edge of the tabloid market: penis enhancement operations, faith healing, and so on. Last Friday they boasted television's first drag-queen tele-dating session. Danny, dressed in black lingerie and high heeled black patent boots, took phone calls from viewers, asking "How big is your dick?" and so on, and made a date with one of them. It all looks astonishingly cheap and the sensationalism may pull in a hefty post-pub, post-club audience. But is this really the way that British commercial television intends to make the bigger profits which the new government rules apparently intend?

Last month this column characterised much of television's drama output as Marks and Spencer material (middle of the market, good value for money, but desperately safe and derivative), so it should now be acknowledged that we have recently been treated to two superior and original drama produc-

Catering for closing time on the commercial channels

Television/Christopher Dunkley

tions, both on BBC1. The 13-part series about a police investigation unit, *Between The Lines*, fulfilled its early promise, developed three unusually interesting characters at its centre, and vividly illustrated the difficulties of fighting the unprincipled with principles. It fully merits another series and is getting one. *Look At It This Way*, a three-part adaptation by Justin Cartwright from his own novel, was a nicely idiosyncratic mix of crime, romance, and satire, using cities in general and London in particular as a sub text, and a visually powerful one.

On the other hand ITV's new

Sunday evening series *A Touch Of Frost*, with David Jason playing yet another police detective, looks like a classic Marks and Sparks production. It is well made - though the opening story was not too clever and will doubtless please many and offend few. But do we really need yet another one?

On Monday *Panorama* finally presented an honest programme about "Satanic abuse", showing that, whatever those ludicrous ookey-spooky documentaries on Channel 4 may have pretended, there is no evidence whatsoever to prove the existence of this

phenomenon which stems from an obsession among American Christian fundamentalists. Producer Nardine Minhas and reporter Martin Bashir deserve the thanks of everyone, especially those whose children have been taken away by social services departments and put through the astonishing sort of third degree demonstrated on this programme.

Which current affairs series will have the courage to make a similarly honest programme about AIDS to be shown in Britain in peak time on a major network? It will, of course, cause the most almighty row. In the ten years since the first public acknowledgement of the disease, enormous efforts have been made to frighten ordinary heterosexuals into altering their habits, rather than focussing on promiscuous male homosexuals, bisexuals, drug abusers or those from parts of Africa as "high risk" groups. In the age of political correctness it seems that television journalists would rather risk misleading the public than being called homophobic or racist.

Last week being AIDS Awareness Week, this serious lack of balance was much in evidence. We were repeatedly told that in Britain the fastest increase in AIDS cases in the past year was among women, but none of the speakers mentioned the fact that for women the numbers are counted in tens but for men in thousands. In all the years of AIDS programmes, I know of only three which were completely honest and open. The first, made by Fisher Dilke for *Horizon* in 1985, tried to establish exactly what it was about homosexual behaviour which produced a high incidence of the disease. The BBC suppressed it. The other two, made by Joan Shenon, were bravely non-conformist and questioned some of the widespread assumptions about AIDS and HIV.

But having been shown on Channel 4, they will not have reached a big audience.

Last week's programmes were typified by the sight of comedienne Ruby Wax wagging her finger at us and telling us that heterosexuals must wear condoms. You might think that the duty of a self-respecting current affairs department was to try to explain to us the difference between AIDS in Britain and in sub-Saharan Africa. Does the high rate of heterosexual AIDS in Africa result from needle-sharing in under-funded clinics? From transmission linked to other venereal infections? From the widespread use of anal intercourse as a contraceptive measure? Medical journals discuss these factors, but television programmes prefer to suggest uncritically that since AIDS is a heterosexual disease in Africa, the same must be true in Britain, despite the differences. This is another example of a subject on which the public has been better served by the press. If television continues to suppress facts and to follow its own tunnel vision down the politically correct line while newspapers continue to report a broader spectrum of fact and opinion, television's credibility in current affairs will suffer.

The increasing specialisation in the television awards business is getting out of hand. On Monday of last week Sky One brought us two and a half hours of the BAFTA Advertising Awards, compered by David Frost, then on Saturday ITV gave us two hours of The British Comedy Awards compered by Jonathan Ross. These are both new occasions to be added to the Emmys, Oscars and BAFTA Awards, the BFI Awards (with their leaning towards film), and the RTS Awards (journalism), not to mention the craft awards, awards for rock videos, and so on. Soon there will be enough to make it a regular monthly occasion, and at that point the logical step will surely be an Award of Awards, offering a single prize for the year's best actor, actress, comedy, documentary... and of course best awards evening.



The Brash Street Kids meet the girls of St Trinian's: presenters of Channel 4's 'The Word'



Sarah Brightman and Michael Hordern

Theatre/Malcolm Rutherford

Trelawny of the Wells

There is a mass of theatrical history behind *Trelawny of the Wells*. Over the years it has been Arthur Wing Pinero's most popular work, far ahead of what Hilaire Belloc called "that interesting play, *The Second Mrs Tanqueray*". But not even Pinero (1855-1934) could have expected to see two major productions of *Trelawny* in London in 1992-93. The first opened at the Comedy on Monday; the second will be at the Royal National Theatre in the new year.

A word of warning may be in order. The first half of the Comedy production is laden to an unexpected degree. Do not form a judgment at the interval, for the second half takes off. This may be because of the veteran Sir Michael Hordern, rumoured to be making perhaps his last West End stage appearance.

Hordern plays the part of Sir William Gower who, in the first half, is a very dour fellow indeed. Vice-Chancellor of the legal profession, he lives with his even more repressed sister in Cavendish Square, sleeps briefly after dinner before devoting his intellectual energies to playing whist (not even bridge). Almost none of the first half jokes and situations succeed, including the introduction of the team of troupers at the Wells.

Then comes the transformation. The Vice-Chancellor turns out to have been a more lively man in his youth: having seen Edmund Kean act, he had an eye for what he calls the "gypsy profession" himself. Toby Robertson's direction is worth seeing for Hordern's second half showing alone. Even when he just grunts, and he does a lot of that, Sir Michael remains a formidable stage presence. He exudes old-fashioned authority; everyone defers to it.

For the rest, some background may help. Pinero was an actor before turning to writing. He switched when realism in the theatre was just coming in and was not immediately popular. One of the characters in *Trelawny* is called Tom Wrench. He is drawn from the real-life playwright, now largely for-

gotten, T. W. Robertson (1829-71). Robertson came from a huge theatrical family. It was Robertson who - before Chekhov, Ibsen, Shaw and Granville Barker - tried to introduce realism to the stage. He was known for his "cup-and-saucer drama".

While much of *Trelawny* is farce, the background is the struggle for what the theatre should be about. The Wells is Sadler's Wells where some of the innovations, and some of the resistance, took place. The *Trelawny* of the title is not a squire, but Rose, the juvenile lead who started in musical comedies until she became more serious and was temporarily sacked. You can see the influence on Shaw: there is a touch of Blaise Doolittle in Rose.

Some of *Trelawny* comes close to Victorian melodrama, though perhaps this is satirical. The Vice-Chancellor, for instance, could very well turn out to be a villain and his grandson come to a sticky end. Yet what you get, above all, is the fascination with theatre which, around the end of the 19th century, went into one of its most productive periods. Pinero was steeped in it.

There are some wonderful ironies. The Vice-Chancellor recalls his theatre-going youth, does a little walk like a hunchback, then reflects on the decadence of the new realism: "When I saw Kean as Richard, he reminded me of no member of my family. Shakespeare knew better than that."

Rose is played by Sarah Brightman. She is far too professional ever to put a leg wrong, but is a surprisingly mature actress to be cast as a 19-year-old juvenile lead. A touch of the *ingénue* might live things up in the style of Sara Crowe. Some of the smaller parts are excellent, especially Kelly Hunter as the splendidly named Avonia Bunn. It cannot be beyond Toby Robertson to quicken the pace of the first hour or so.

Comedy Theatre for an eight week season. (071) 867 1045

Concert and semi-staged opera performances at the Barbican and Queen Elizabeth Hall

An epic evening with Nielsen's 'Saul and David'

Nielsen's first opera *Saul og David* has stayed outside the repertory in Britain. It has been staged here just once, in a semi-professional production in 1977 - though a new Danish recording was released last year. As part of "Tender is the North" at the Barbican on Monday the BBC Symphony Orchestra and Chorus undertook a concert performance: a vivid, impassioned account conducted by Andrew Davis, sung in Danish with a mix of British and Danish soloists.

The dramatic tenacity of the score in the concert hall squashed all suspicions that this Biblical epic is really oratorio passed off as opera. The choruses may be striking inspirations and integral to the dramatic structure, but the work hinges genuinely upon its juxtaposition of the central characters - Saul and David, Saul's children Jonathan and Mikal and the prophet Samuel - and the ways in which their psychologies are probed and analysed. That Nielsen works much of this out in terms of inherited operatic stereotypes rather than through freshly minted invention never threatens the work's integrity, what is memorable is the sustained effect of *Saul and David*, rather than any of its specific details.

By the time he came to write the opera at the turn of the century Nielsen had learnt his craft well. Musorgsky's *Boris Godunov* is com-

monly cited as *Saul and David's* precursor; that source is especially evident in *Saul's* monologues and the self-piece choruses, and Nielsen was after all a nationalist composer of his own devising, one derived at several removes from Musorgsky's example. But there is a good deal of Wagner in the writing too (hints of *Götterdämmerung* in Samuel's grave pronouncements) and even of the 19th-century Italian tradition in the lyric duet for David and Mikal that ends the first act. If the opera never quite takes off or becomes more than the sum of these identifiable parts it is plotted with great economy and directness, carved out in massive tonal arches. As Andrew Davis recognised, the music always knows where it wants to go and generates the momentum it needs to get there.

Ideally the vocal writing requires more weight than mustered in the Barbican cast, singers with Wagnerian powers of declamation - one of the early interpreters of the role of Mikal was Kirsten Flagstad, while the recent recording cast Aage Haugland as Saul. But here with Ulrik Cold as a flexible Saul, Kurt Westi a persuasive David and Christian Christiansen a sepulchral Samuel the performances were consistently involved; Eva Johansson joined well with Westi in Mikal's duets, and John Mark Ainsley added a finely drawn Jonathan to his own increasing operatic gallery.

On Sunday Colin Davis and the London Symphony Orchestra had added a further instalment to their cycle of the Sibelius symphonies, which is proving to be the glorious centrepiece of this Scandinavian celebration. Davis's powers as a Sibelius interpreter have grown steadily over two decades; but until this concert he had never tackled *Kullervo*, the symphony for voices and orchestra based upon an episode from the Finnish *Kalevala* which preceded the numbered symphonies and furnished so much of Sibelius's later music.

In Finland *Kullervo* has tremendous nationalist significance and in Britain performances have been increasingly frequent over recent years. Davis's account though surpassed any I had heard in its purposeful power and its refusal to be ambushed by any of the work's *longueurs*. Even the long central movement "Kullervo and his Sister" remained on course and culminated in wonderful declamatory solos from the baritone Jorma Hynninen and the soprano Soile Isokoski. The choir was the Helsinki University Chorus, which has made *Kullervo* its own speciality; the LSO, enjoying a vintage period at the moment, never failed in its attention to detail.

Andrew Clements

Barbican Hall and BBC Radio 3

Purcell's 'Dido and Aeneas'

An instrumental prelude led into the Prologue. This turned out to be a pageant of the sea, an allegory in the French style, featuring Phoebus attired in gold with a richly plumed headdress, Venus, nymphs and shepherds, the men in this stylishly costumed production all looking the spitting image of Charles II.

For those who had not read the small print, the identity of the opera would be a mystery. Surviving copies of the text for Purcell's *Dido and Aeneas* show that at some point it acquired a prologue, but the music is lost and the opera has become known without it. In this staged performance at the Queen Elizabeth Hall on Monday the English Bach Festival tried a reconstruction: other short pieces by Purcell were interspersed throughout the verses, which were spoken.

As a one-off exercise, it had its value. Assuming Purcell ever did write the music to go with this opening, the drama would have taken on a wider significance in the person of the goddess of love, representing all the Didos of the human race. No doubt the score would also have brought a deeper resonance to her utterances - but without the music, we just do not know.

It was telling how the performance jolted into life, as soon as we moved into the opera proper. An important feature of *Dido and Aeneas* is that Purcell wrote it to be sung all the way through, but that effect is lost if the Prologue can only be performed like a masque, as spoken drama with music. The inherent power of the opera itself

was in any case marvellously shown by this EBF production, a noble realisation for all its evident need to watch the pennies.

No Restoration extravaganzas here. Tom Hawkes provided just simple stage effects and a producer's acumen in how to bring out the devastating emotional force in Purcell's drama. In this hall an orchestra of seven (strings, lute and harpsichord) proved sufficient; but a chorus of four was more of a sacrifice, as they could hardly be expected to echo themselves from afar. Kathleen Tynan was an excellent Belinda and Nigel Leeson-Williams sang a burly warrior of an Aeneas.

Still all this might not have succeeded, if the performance had not found so striking a focal point in its central performer. A specious argument was proffered in the programme as to why Della Jones had been asked to take on the roles both of Dido and the Sorceress, but her magnificent accomplishment of the task was reason enough. As the Sorceress, she pushed her voice; but as Dido, she triumphed in a regal style. In an uneasy way her performance spanned the centuries: sometimes the clear singing of intricately decorated vocal lines suggested period practice, at others she left all that behind and let fly with the full-range of modern-day expression. More important, the whole tragic spirit of Purcell's *Dido* seemed to be alive in her hands. It was there that this *Dido and Aeneas* found its true raison d'être.

Richard Fairman

INTERNATIONAL ARTS GUIDE

BARCELONA

● Uwe Mund conducts Götz Friedrich's production of *Lohengrin*, opening at Gran Teatre del Liceu on Mon (further performances on Dec 17, 20, 23, 27, 30, Jan 2, 5). The cast includes Thomas Sunnegardh, Hans Sotin and Eva Martin. Dec 19: Paata Burchuladze sings Russian and Italian arias (412 3533). ● Garcia Navarro conducts Barcelona City Orchestra in works by Brahms, Prokofiev and Rakhmaninov at Palau de la Musica on Sat at 19.00 and Sun at 11.00, with cello soloist Gary Hoffman. Sat at 22.00: László Heltay conducts Handel's *Messiah*. Next Tues: Zagreb Soloists play concertos by Correlli and CPE Bach. Next Wed: Alexis Weissenberg piano recital (268 1000).

● Anne Teresa de Keersmaecker's experimental dance group Rosas presents *Achterland* on Sat and Sun at

Mercat de les Flors, carrer Lloïda 59. Alan Ayckbourn's play *Absurd Person Singular* can be seen at Teatr dels Teatreu, Terol 26, till Jan 24. Information and booking for cultural events available through Caixa de Catalunya from 08.00 to 14.00 (310 1212).

COLOGNE

OPERA
Opernhaus Tonight and Sat: *Entführung*. Tomorrow: *Hansel und Gretel*. Fri: *Der fliegende Holländer* with Monte Pederson and Mechthild Gessendorf. Next Thurs: Olaf Baer song recital. Dec 20: Thomas Fulton conducts first night of Willy Decker's new production of *Billy Budd*, with Philip Langridge as Vere (221 8400).
CONCERTS
Philharmonie Fri: Yakov Kreizberg conducts Cologne Radio Symphony Orchestra in works by Mozart and Tchaikovsky, with piano soloist Valery Afanassiev. Sun afternoon: Handel's *Messiah*. Sun evening: Andras Schiff plays Schubert. Mon: Cologne Chamber Orchestra plays Bach. Tues: Ton Koopman directs Amsterdam Baroque Orchestra. Next Wed: Maurice André (2801).

THEATRE
Schauspielhaus A new production of Friedrich Hebbel's *Maria Magdalena*, directed by Torsten Fischer, opens on Fri. The repertory also includes Michael Bogdanov's production of John Ford's *'Tis Pity She's A Whore* (221 8400).

COPENHAGEN

Flemming Flindt's production of *Nutcracker* can be seen tonight and tomorrow at the Royal Theatre, and continue in the city's Sibelius concert hall. Fri: Nielsen's comic opera *Maskarade*. Sat and Tues: Don Carlo. Mon: Carmen (3314 1002).

FRANKFURT

CONCERTS
Alte Oper Horst Stein conducts concert performances of *Hansel und Gretel* tonight, tomorrow and Fri, with a cast including Brigitte Fassbaender. Tomorrow (in Mezzesaal): Edith Wiens song recital. Sat: Maurice André trumpet recital. Sun: Michael Gielen conducts Mahler's Seventh Symphony. Mon: Frans Bruggen conducts Deutsche Kammerphilharmonie in works by Haydn, Beethoven and Mendelssohn, with piano soloist Olli Mustonen. Next Tues: Handel's *Messiah*. Dec 18-Jan 10: 42nd Street (1340 400).
Jahrhunderthalle Höchst Sat: Manfred Honeck conducts Bamberg Symphony Orchestra in works by Dvorak, Martinu and Ravel, with cello soloist Gustav Ravinius. Next Tues, Wed, Thurs: Russian State Ballet (3601 240).
A new William Forsythe ballet will be premiered at the Schauspielhaus on Dec 19, followed by the first night of Ruth Berghaus' production of *Der Rosenkavalier* in the Opernhaus on Dec 23. The only

performances over the coming week are Die Fledermaus on Sat and next Fri, and La traviata on Sun (236061).

GOTHENBURG

Konsthuset Sat at 15.00: Neeme Järvi conducts Gothenburg Symphony Orchestra in Shostakovich's Fourth Symphony. Dec 17, 18: La Damnation de Faust (167000).

HAMBURG

Staatoper Tonight: Don Carlo with Anna Tomowa-Sintow and Roberto Scanduzzo. Tomorrow: *Hansel und Gretel*. Fri and Sat: Die Zauberflöte. Sun: Bob Wilson's production of Parsifal. Next Tues: Der fliegende Holländer with Elizabeth Connell and Simon Estes (351721).

LEIPZIG

OPERA
Opernhaus Tonight: Sophia Larson sings the title role in Elektra. Tomorrow: La bohème. Fri: Le nozze di Figaro. Sat: ballet by Uwe Scholz. Sun: Werther with David Rendall in the title role. Mon: Edda Moser song recital. Dec 18: first night of new Lohengrin production (7168 273).
CONCERTS
Gewandhaus Tonight: Peter Schreier, accompanied by Karl Engel, sings Winterreise. Tomorrow and Fri: Alexander Rahbari conducts Gewandhaus Orchestra in works by Laporte, Strauss and Rimsky-Korsakov. Sat: Shlomo Mintz violin recital.

Sun: concert of opera arias with Rodney Gilgriff and other soloists. Next Thurs and Fri: Kurt Masur conducts Beethoven's Sixth Symphony (7132 280).

LYON

● Tomorrow and Fri at Auditorium Maurice Ravel, Emmanuel Krivine conducts Orchestre National de Lyon in works by Richard Strauss and Musorgsky, with Charlotte Margiono soloist in the Four Last Songs. Sun morning at Hotel de Ville: Emmanuel Krivine conducts Bach Brandenburg Concertos (7860 3713). ● Barbara Hendricks, Gabriel Bacquier and Gino Quilico star in an Opera de Lyon production of L'elisir d'amore on Fri at Théâtre du Huitième, 8 ave Jean Mermoz. Dec 26 at Auditorium Maurice Ravel: Kent Nagano conducts first of seven performances of Prokofiev's ballet Romeo and Juliet, choreography by Angelin Preljocaj (7828 0960).

NEW YORK

THEATRE
● Oleanna: David Mamet, in fine crudely good form, takes on political correctness, sexual harassment and other ills in this brief, powerful drama (Orpheum, 126 Second Ave, 307 4100). ● The Sisters Rosensweig: Wendy Wasserstein's new play about the reunion in London of three American Jewish sisters

(Mitzi E Newhouse, Lincoln Center, 239 6200).

● Conversations with my Father: Herb Gardner's bittersweet memory play about a Lower East Side barkeeper, his two sons and the patrons of his tavern (Royale, 242 West 45th St, 239 6200).

● Guys and Dolls: a lively production of Frank Loesser's musical directed by Jerry Zaks (Martin Beck, 302 West 45th St, 239 6200).

● Jelly's Last Jam: the music of Jelly Roll Morton, self-proclaimed inventor of jazz, plus an unsparing portrait of the man himself. In the starring role, Gregory Hines combines his astonishing talent as tap dancer and actor (Virginia, 245 West 52nd St, 239 6200).

● Five Guys Named Moe: the guys are black dancers and singers of ability and spirit, who perform the songs of the late Louis Jordan (Eugene O'Neill, 230 West 49th St, 239 6200).

STRASBOURG

Théâtre Municipal 20.00 First night of new Opera du Rhin production of Die Fledermaus, conducted by Theodor Guschlbauer and staged by Pierre Strosser. Further performances tomorrow, Sat, Sun, Dec 19, 20, 22, 23 (8875 4823). Dec 16, 17 in Palais de la Musique: Guschlbauer conducts Strasbourg Philharmonic Orchestra in works by Schubert, Dvorak and Bruckner (8837 6777).

European Cable and Satellite Business TV

(all times CET)

MONDAY TO FRIDAY

CNN 2000-2030, 2300-2330 World Business Today with Jeff Fagan production with Grant Perry and Colin Chapman

Super Channel 0700-0710, 1230-1240, 2230-2240 FT Business Daily 0710-0730, 1240-1300 (Mon, Thurs) FT Business Weekly - global business report with James Ballini 0710-0730, 1240-1300 (Wed) FT Media Europe 0710-0730, 1240-1300 (Fri) FT Eastern Europe Report 2240-2248 FT Report

Sky News 2030-2100, 2230-2300 FT Business Weekly

SATURDAY

CNN 0900-0930, 1900-1930 World Business This Week - a joint FT/CNN production

Super Channel 0830-0850 FT Business Weekly

Sky News 1130-1200, 1730-1800 FT Media Europe

SUNDAY

CNN 1030-1100, 1800-1830 World Business This Week

Super Channel 1900-1930 FT Business Weekly

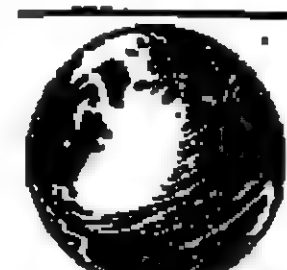
Sky News 0130-0200, 0530-0600 FT Media Europe

1330-1400, 2030-2100 FT Business Weekly

Edward Mortimer

Pass the human parcel

The EC resolution on asylum may force refugees to countries least able to support them



FOREIGN AFFAIRS

At European Community summits many statements are issued. Only a few are seriously discussed. One statement which this week's Edinburgh summit can be relied on to not through is a "declaration on principles governing external aspects of migration policy", proposed by the British presidency.

While welcoming the "greater ease of travel and contacts throughout Europe" allowed by the collapse of communism, the summiters will express their concern that "uncontrolled immigration could undermine the situation of third country nationals who have legally taken up residence in the member states". And they will go on to list the factors they think could help reduce migration: "the preservation of peace and the termination of armed conflicts; full respect for human rights, including respect for minority rights; the creation of democratic societies and adequate social conditions; a liberal trade policy, which should improve economic conditions in the countries of migration; and co-ordination of action in the fields of foreign policy, economic co-operation and immigration and asylum policy".

If that is to be taken as a list of devout Christmas wishes, it borders on the platitudinous. If it is a list of New Year resolutions on which the EC's member states intend to act it is laudable, but strains credulity. They hardly have the power to create democracy, let alone adequate social conditions, beyond their own borders. They apparently lack the power, or anyway the will-power, to preserve peace and terminate armed conflicts. They have done a bit, but hardly enough, to encourage respect for human and minority rights. They presumably do have the power to adopt a liberal trade policy, but seem disinclined to exercise that power when dealing with goods that "countries of migration" can actually produce at competitive prices such as steel.

That leaves "co-ordination of action", notably in the field of immigration and asylum policy. Here the member states have indeed been busy, although they remain strangely coy about the details of what they have been up to.

Last week the ministers with responsibility for immigration matters met in London under the chairmanship of the British home secretary, Mr Kenneth Clarke. They did issue a press release listing the recommendations they had approved and the resolutions they adopted, but the texts of these documents were not made public. If it were up to the British



government the texts would not doubt still be shrouded in that cloak of secrecy with which it instinctively surrounds all its activities when not positively obliged to disclose them. Mr Clarke, for instance, had nothing to say about his deliberations with the European colleagues when he appeared the next day before the House of Commons committee considering Britain's own national Asylum Bill.

One might think - indeed some MPs did think - that the

British draft, advising refugees to stay in their own countries or continents, has disappeared. And the overall objective, to speed up the processing of applications in the interest of genuine refugees as well as that of host country, is reasonable enough.

But the resolution does not suggest that other EC countries should follow the Dutch example of speeding up the process by offering applicants free legal aid. Instead it introduces the notion of the "host

The object is to make sure that refugees are sent back to the first 'safe' country they were able to reach

former would have some bearing on the latter. But apparently it is none of their business.

Luckily the Dutch government is rather less secretive. And so the texts of last week's resolutions soon became available to British non-governmental organisations and journalists.

One of those resolutions, calling for an "accelerated procedure" to deal with "manifestly unfounded applications for asylum", was referred to in this column on October 28. I am happy to report that some of the more offensive language I quoted then from the original

third country", defined at some length in an accompanying resolution, but meaning in essence a country outside the Community - other than the refugee's own - from which he (or she) has come and to which he (or she) can be sent back.

Did I say "can"? It is actually more like "must". Although there is a let-out clause under which "any member state retains the right, for humanitarian reasons, not to remove the asylum applicant to a host third country", any state which exercises that right in more than a handful of cases will clearly be letting the side

down, since "the principle of the host third country is to be applied to all applicants for asylum, irrespective of whether they may be regarded as refugees", and "thus, if there is a host third country, the application for refugee status may not be examined and the asylum applicant may be sent to that country".

In short, the object of the resolution is to make sure that refugees are sent back to the first "safe" country they were able to reach. It complements the Dublin Convention, signed in 1990, under which member states agreed that asylum applications should be dealt with by the first EC country in which the applicant had arrived.

Although, as of last week, only four states had got round to ratifying this convention, Britain has been making vigorous use of it. A verb "to Dublin" has even been coined to describe the action of sending someone back to, say, Belgium on the grounds that he spent a night in Brussels airport before reaching Britain.

Britain is the main beneficiary of these arrangements. Few people will be "Dublined" to Britain, since few refugees will pass through Britain on their way to other EC states. The UK has placed itself at the hub of two concentric circles of selfishness. It can send people back to other EC countries, and now all EC countries will be expected to send them back to "host third countries".

Which will those host third countries be? All too often the central European ones closest to the horrors that people are fleeing from, and most in danger of being sucked into those horrors themselves: Macedonia, Croatia, Slovenia, Timor, the Czech and Slovak republics, Poland. All those countries, in the midst of their own desperately difficult transition to democracy and the market, are struggling to cope with great flows of refugees and migrants, and have neither the institutions nor the resources to cope with them.

To qualify as a host third country, you must not threaten the life or freedom of the applicant, or subject him to torture or inhuman or degrading treatment, or send him back to the country whose persecution he originally sought to escape. As soon as you pass this test, your reward is to be expected to keep all the refugees that arrive on your own territory, and to accept back all those that have tried to move on to more prosperous and stable countries, which one might think better equipped to look after them.

Is it by this obscene game of pass-the-human-parcel that west European leaders believe they will encourage full respect for human rights and "the creation of democratic societies and adequate social conditions"?

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

Building societies: a spread that would be a little too thin

From Mr Mark Bolat.

Sir, Mr Mark Hull (Letters, December 4) suggests that 30 years ago building societies borrowed money at 4 per cent and lent it at 5 per cent, whereas now there is a 3 percentage point spread.

In 1962, the average rate of interest paid on building society shares was 3.7 per cent which, after payment of tax by the building society, equated to a gross cost of 4.46 per cent. The average rate of interest charged on mortgages was 6.61 per cent, a margin of 2.15 per cent.

In the first half of 1992, the average cost of shares was 8.04 per cent and the average rate charged on mortgages was 10.9 per cent, a smaller margin at 1.86 per cent.

Mr Hull would like a 1 per cent point spread and his manager on the golf course at 3 o'clock. Sadly, neither is attainable at present.

A 1 percentage point spread might just be sufficient to

cover the management adequacy of a society. However, it would be insufficient to meet rigorous capital adequacy requirements, especially bearing in mind the effect of the recession on bad debts provisions.

Mark Bolat, director-general, The Building Societies Association, 3 Saville Row, London W1X 1AF

From Mr Antony L. Millard.

Sir, Mr Mark Hull is mistaken. The rule (used by the American savings and loan institutions until the 1980s) is in fact "3-6-3" (borrow at 3 per cent, lend at 6 per cent, be golfing by 3pm).

The so-called technological age has done nothing but electricity their golf-carts.

Antony Millard, Leslie & Godwin Financial Risks, 6 Brahm Street, London E1 8ED

Whacky, but an answer to a little understood problem

From Mr Donald Clarke.

Sir, Your leader on the prospective demise of the unlisted securities market ("Going to market", December 1) makes the remarkably perceptive point that an external source of equity capital is more important for British companies than for their German counterparts.

Remarkable because this basic fact of British economic life seems to be so little understood.

The difficulties faced by companies needing the oxygen of base capital at a time when they are stifled by excessively large and expensive amounts of debt point to the need for a permanently available institutional source of equity capital. It is inevitable that such capital will become more scarce and expensive as the liquidity of the secondary market

declines, however easy it may be in times of booming corporate profits and investor demand.

There is thus a clear need for an institution capable of providing equity capital to private companies in all economic weather. It must be able to acquire inexpensively, and hold indefinitely, equity stakes which provide its own shareholders with little short-term income, but with the compensation of long-term capital growth.

I could, if you like, suggest a name for the proposed institution, reflecting its long-term commitment to British business - "Investors in Industry", or, if you prefer a more whacky abbreviation, "ii".

Donald Clarke, Barton St David, Somerset, Somerset TA11 6BJ

Indian industrialist warns of danger of divisiveness

From Mr Ratan N Tata.

Sir, The wanton act of destruction at Ayodhya on Sunday will remain as a dark moment in India's history. All right thinking Indians must feel a great sense of loss.

Our independence was won through non-violence. As the world's largest democracy India has built an international reputation as being a secular nation where all religions have co-existed peacefully. It is therefore unforgivable that political parties can consciously fan religious fanaticism and hatred to serve their

own selfish political ends.

The time has come for the people of India to stand up against these divisive forces by fighting communalism and hatred. We should instead all work together to strengthen our common bond of unity - we are all Indians. Let us not destroy our heritage.

Ratan N Tata, chairman, Tata & Sons, "Jeevan Bharati", Tower 1, 10th floor, 124 Connaught Circus, New Delhi 110 001, India

Mistrust and angst behind Swiss rejection of EEA

From Mr Bijan-Daniel Khezri.

Sir, Your editorial on Switzerland's rejection of the European Economic Area ("A shot across the EC's bows", December 7) rightly states that the larger question at stake is the very future of the Swiss political system.

Close analysis of the Swiss discussion on the EEA, particularly in German-speaking Switzerland, further suggests the following:

● Communication between the political and business elite on the one side and the public on the other broke down completely. As you stated: "The people trusted their instincts more than their leaders." Misinformation, largely circulated through privately sponsored advertisements in the local press, dominated the scene. Europe's political class and business leaders have failed to make the (so far diffuse) notion of subsidiarity and supranationality accessible to the pub-

lic in a time of changing values and ever increasing political and economic transnational interdependence.

● Swiss rejection of the EEA is principally a rejection of the majority Germany-speaking Switzerland, where discussion had little to do with Europe itself, but was a reflection of a deeply rooted angst of losing one's very specific cultural identity.

● Swiss rejection of the EEA runs smack into constitutional realities. It raises the question whether Swiss direct democracy is practical at a time when long-term structural decisions have to be taken which simply surpass the comprehensive capabilities of the average masses.

Bijan-Daniel Khezri, student, Institut Universitaire de Hautes Etudes Internationales, rue Rene-Louis Pichaud CH-1204 Geneva

Defying conventional wisdom

From Mr Denis MacShane.

Sir, Your report on Renault's impressive success ("U-turn on the road to ruin", December 3) notes that the company is 80 per cent state-owned and its state-appointed chairman and chief executive is a former aide to the Socialist prime minister, Laurent Fabius.

Does this not fly in the face

of the conventional wisdom that only privately-owned firms can succeed and that civil servants running industries are always a disaster?

Denis MacShane, International Metalworkers' Federation, 54 bis, route des Acacias, Case postale 563, CH-1227 Geneva

OBSERVER

A tale of two heads

■ Fancy a flutter? If so, you might try one of the Russian commemorative coins just unveiled in the former Soviet embassy in what was East Berlin, with a view to netting D-Marks by the million for Moscow's hard-up treasury.

Although introduced by a Russian mint official called Vladimir Antipov, whose first name is shorthand for Vladimir Lenin, the coins bear the old Tsarist insignia of the double-headed eagle. "It is our new national emblem," he said.

True, he went on, there was the little local difficulty of the latest People's Congress failing to approve the new national arms. But it had not definitively rejected them either. "We give no guarantees, but I think more deputies are for the eagle than against."

Whereupon he popped Russian diplomat Vladimir Polenov with an entrepreneurial twist. If the People's Congress did give the bird to the eagle, the value of the coins could soar by a hundredfold, he thought.

Beaming, Antipov followed up by naming a likely best buy for German collectors, who for "historical reasons" tend to take up three-fifths of the commemorative coins issued by the Moscow mint.

On the obverse side from the eagle, he said, the 25 rouble specimen in palladium bore a smiling Catherine the Great, German-born and an enlightened despot to boot. Just the thing for a Christmas present at DM 650 a throw.

Burning issue

■ While parliament quibbles over who should pay for restoring the burnt-out ruins of Windsor Castle, MPs might

give a little thought to their own fire precautions.

According to today's report on same from the National Audit Office, the Palace of Westminster has been without a fire certificate since 1979 when an inspection declared the provisions inadequate. It could be as long as three years before the Home Office Fire Service Inspectorate is able to issue new documentary approval.

As if that were not bad enough, the Treasury also lacks a fire certificate. Several departments share the Great George Street building, and there was apparently confusion over which of them was responsible for making the application.

Officials say they're looking forward to receiving the necessary paper any day. But given the record of Treasury forecasters, it would probably be wise to pack a wet blanket in your briefcase when going to 1 Great George Street... especially if visiting permanent secretary Sir Terry Burns.

Crooked

■ A Wall Street newsletter, speculating on the next career move of an unfortunately named Smith Barney official, heads its story - "Lehman to name Smith Barney's Crooks to run trading".

In the dark

■ A black day for transport minister Steven Norris and his official re-opening of London's Victoria coach station, restyled and fitted with all kinds of high-tech gadgetry at a cost of £4m.

For one thing, his mother - a regular coach-traveller - had bowled down from Nottingham to see him perform. But he, coming only



a mile or so from the transport department's headquarters, got held up by heavy traffic and was 20 minutes late.

What's more, even when he arrived, there was no lighting, no heating, nothing on the new passenger-information screens, and no computer ticket-dispensers at work. Thanks to a local power failure, Britain's busiest coach station - with 180,000 comings and goings a year - was blacked out.

So he took his mother on a tour of the gloomy complex, sporadically enthusing about how excellent the improvements would be when they worked.

And at least there were some real-life passengers to see, awaiting their departures in the dark.

Title inflation

■ When is a professor not a professor?

The question has been posed by some churchill individuals who have noted that members of the Treasury's new private-sector forecasting panel who are listed as professors

include Tim Congdon.

While Wynne Godley, David Currie and Patrick Minford are full-time university types, consultancy-owner Congdon is a mere honorary professor of economics at Cardiff Business School. Usually, honorary profs tend to call themselves plain mister when outside the university that so honoured them.

Perhaps the reason is that, for career academics, a professorship generally takes much time and achievement to acquire. Moreover, even when they've won it, most earn a relative pittance compared with some of their honorary colleagues.

Whatever the latter's rights to the title, their use of it in public smacks of gliding the lily.

Free lunch?

■ If public relations is all about winning friends and influencing people, then the small London PR outfit, Roston Parry may well be approaching its profession the wrong way.

Its invitation certainly stands out from the general run as the Christmas party announcements roll in. Roston Parry takes "great pleasure" in inviting Observer to lunch... then asks for a cheque for £14 to cover food and "a reasonable amount of drink".

Can times be so hard that even journalists are expected to pay their own way?

Pecking order

■ A plump pigeon in a laboratory cage turns to its starving neighbour. "Why don't you try a bit of psychology? I've got the staff here so well conditioned that every time I peck this button, they feed me."

Success is having the energy to match the ideas.



Albert Einstein, Physicist, born 14th March 1879, in Ulm, Baden-Württemberg.

Laser beam applicator.

Are we wrong to see Einstein purely as a man of ideas, and not a man of action?

It's an interesting thought. Because had he not sought out the right facilities, with the right attitudes to seize a new opportunity, the world may never have heard his radical ideas - or harnessed the power of atomic energy.

Einstein's theory was proven, but he equally demonstrated that success is as much a function of action, as of ideas.

Fresh thinking, and clear motivation still thrive in the region of Baden-Württemberg, making it a major centre of high technology.

For more information about Baden-Württemberg (Germany), please contact:

Agency for International Economic Cooperation
Baden-Württemberg (GWZ)
Mr Günther Fuchs
Wilf-Bleicher-Strasse 19, 7000 Stuttgart 1, Germany
Telephone (+49-711) 227 8721, Fax (+49-711) 227 8722

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FINANCIAL TIMES

Wednesday December 9 1992

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German interest rate rise provoked September turbulence, says banker Bank blamed for currency crisis

By David Waller in Frankfurt
and Quentin Peel in Bonn

THE BUNDESBANK was partly to blame for September's turbulence in the currency markets, through its controversial decision to increase interest rates in July, said a main board director of Deutsche Bank, Germany's largest bank, said yesterday.

Mr Ulrich Cartellieri, the board member responsible for economics, said the market judged that other countries would be unable to follow suit. Investors had behaved accordingly, moving their assets out of softer currencies into the D-Mark.

His remarks coincided with a defence of the Bundesbank by Mr

Helmut Schlesinger, the Bundesbank president who in a recent speech blamed speculators for the currency turmoil, the Deutsche Bank economist said that those who were indulging in so-called speculation were careful financial managers, in big companies and in financial institutions,

by automatic interest rate cuts by the German central bank. At the same time Mr Köhler, Germany's chief international financial negotiator, warned that the Bundesbank could not conduct its monetary policy totally divorced from political reality and all democratic control. He said he would like to see lower interest rates in Germany.

Mr Cartellieri's remarks amount to the first open criticism of Bundesbank monetary policy from the top levels of the German banking industry.

In an implicit rebuke to Mr Helmut Schlesinger, the Bundesbank president who in a recent speech blamed speculators for the currency turmoil, the Deutsche Bank economist said that those who were indulging in so-called speculation were careful financial managers, in big companies and in financial institutions,

who had large cash balances in the weaker currencies.

"It was obvious for months that above all Britain, but also France, needed lower interest rates in order to enliven their economies," Mr Cartellieri said. That was made impossible by the Bundesbank's decision to increase its discount rate by 0.75 points to 8.75 per cent on July 16, in an attempt to curb domestic inflation.

The resulting currency turbulence had damaged German industry by increasing the value of the D-Mark against other currencies.

He said that under present circumstances there was a real danger of a "downward spiral" of devaluation, with threatening consequences for jobs, investment and economies across Europe. It was essential to carry on towards the goal of a single

currency for Europe, Mr Cartellieri said.

Mr Cartellieri's remarks, appearing only two days before the Bundesbank Council meets tomorrow to determine a target for next year's M3 broad measure of money supply, amount to a sharp attack on the central bank's monetary policy.

Moreover, his firm support of monetary union contrasts with Mr Schlesinger's own increasingly equivocal statements on the issue.

He said the effectiveness of the Bundesbank's high interest rates - subsequently reduced by what he called a "minimal amount" as part of the realignment of the currencies in the EMS exchange rate mechanism in September - was questionable. He cited inflation still running at 3.7 per cent, and annualised M3 growth running at 10.2 per cent in October.

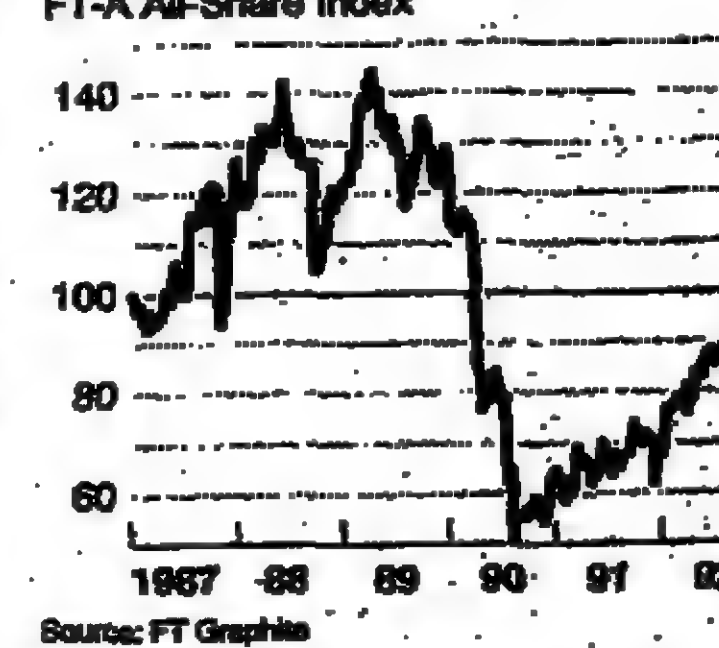
High stakes down under

THE LEX COLUMN

FT-SE Index: 2769.8 (+15.3)

Carlton Communications

Share price relative to the FT-SE 100



Source: FT Graphs

Few doubt the wisdom of British Airways' expansion strategy, but some shareholders may be feeling a touch nervous at the financial implications of its aggression. As if TAT, Dan-Air and the mooted \$750m stake in USAir were not enough, British Airways is also bidding to take a 25 per cent stake in Qantas, the Australian national carrier which is being privatised next year.

The deal is far from done and BA will face strong competition from Singapore Airlines and Air New Zealand. In order to secure the stake, BA may have to put £250m-£300m on the table - although how quickly it would have to pay it out is unclear. Any such outlay would take gearing close to 70 per cent, which surely begins to test the limits of financial tolerance.

BA would doubtless argue that opportunities to secure a foothold in the lucrative Asia-Pacific market seldom arise. And the stock market's apparent equanimity suggests shareholders may be ready to accept the argument. Whether they would be willing to back it eventually with cash is an altogether different matter. BA may be inclined to tough it out on the basis that there is only likely to be one more poor quarter to come and that any gearing up should only heighten its rebound. Alternatively, some form of capital markets issue may provide a neat way of sidestepping the issue. Yet perhaps BA would be privately relieved if one of its deals fell through. Being the world's favourite airline can create its own dilemmas.

Carlton

The rehabilitation of Carlton Communications continues apace. Yesterday's 15 per cent annual profits improvement underpins the share price recovery that has occurred over the past two years.

Carlton's troubles were never as dire as first depicted. In retrospect, its problems stemmed more from a clumsy shift from first to second gear rather than a slamming into reverse. Appropriately, for a company specialising in visual entertainment, Carlton now offers highly visible earnings growth. The video cassette division continues to grow strongly after a near-50 per cent rise last year, while Carlton promises that a raft of new video equipment will jolly profits along too. Carlton Television will start broadcasting next month. Although it will hardly contribute in the current

year, it may add £20m to profits by 1994. Carlton should also benefit from a currency kick this year which may enable it to surpass its historic profits peak of £127m - even though earnings may not do the same until 1994.

That said, one wonders how deep the market's renewed love affair with Carlton can be. Carlton's historic rating is now sandwiched between the likes of Wellcome and Glaxo. Should the quality of earnings from Hollywood be rated as highly as those derived from the frailties of human health?

Siebe

Siebe may have got to the point where it is difficult to squeeze much extra margin from cost cutting. But since it has 45 per cent of its sales in the US, this may not matter too much. A stronger dollar and the high operational gearing at Foxboro should compound the impact of US economic recovery on its earnings. On that basis, the upward trend which has seen the shares outperform the market by nearly 40 per cent over the past year may have further to run.

The higher Siebe's rating, though, the greater must be the temptation to launch a rights issue and maybe another large acquisition. Siebe made it clear yesterday that this was not part of its short-term plan. Indeed there is no real urgency while debt is falling and interest is nearly four times covered. But the first inklings of an ACT problem have appeared and gearing would still be about 150 per cent were it not for Siebe's practice of capitalising research and development expenditure.

A rights issue to finance a UK acquisition could solve both problems. This need be not be negative for the shares as long as any acquisition is chosen for real strategic value rather than mere financial convenience. Foxboro has served the company well. Just the same, the uncertainty may at some point damp the market's ardour.

Deutsche Bank

Deutsche Bank may still be ahead of the game in spite of its 5 per cent fall in operating profits at the 10-month stage. True, this stands in sharp contrast to profits growth elsewhere in the sector and was sufficient to send shares lower yesterday. But the impact of Deutsche's aggressive expansion into east Germany is starting to fall away. Interest margins are being squeezed as savers in the east switch into higher-yielding accounts. Costs are also coming back under control now the task of building a branch network is drawing to a close. Next year's figures should be less clouded. Given the slide of west German industry into recession since the summer, the market may by then be more concerned with asset quality than operating profits.

By lending more in the interbank market rather than to its industrial and commercial customers, Deutsche is already sacrificing lending margins in favour of asset quality. By UK standards, the 1,000 job cuts next year promised by Deutsche's Mr Hilmar Kopper hardly amount to digging in for the long haul. Judged against the rosy optimism on the economy expressed by Commerzbank last week, though, Deutsche is more alive to the risks of recession.

UK privatisations

Politicians never like to rock the boat. Because the government felt well served by S.G. Warburg in the last BT sale, it is natural for it to pick the same house to co-ordinate the next one. One wonders, though, how far the Treasury has thought through the consequences. Intentionally or not, it is building up Warburg at the expense of other UK houses which need a track record in order to bid for the large equity issues that are becoming a common feature of overseas privatisations. Ironically, foreign houses that help with the international sales can put UK privatisation experience on their CVs. As long as they are not part of the team, domestic houses cannot.

Warlord to welcome US troops

Julian Ozanne meets the man who controls the Somali port of Kismayo

COLONEL Omar Jess, the Somali warlord who controls the wild southern city of Kismayo, turned to face the Indian ocean yesterday at the deserted port and gazed towards the horizon. He could have been looking for the French and US ships carrying troops which are expected to land in Kismayo and Mogadishu at dawn this morning.

Col Jess, leader of the battle-hardened Ogadeni clan-faction, is the only man who can offer safe passage into Somalia's second largest port and a main objective of the US-led military intervention.

"We want the US soldiers to come because there is anarchy and chaos in the country, there is looting and gangs and warlords," said the colonel, leaning against a Land Rover armed with a mounted multiple grenade launcher adapted from a MIG-23 fighter jet.

The port and airport at Kismayo are vital to transport food up the Jubba Valley where the people are suffering the worst starvation.

If foreign troops encounter violence it is most likely to be in Kismayo where at least four clans are battling for control of the town's scant resources.

Mr Sean Devereux, a Unicef official in Kismayo, says: "Somalis in Kismayo have been used to localised power and they have seen what the gun can do and what power it can bring."

The United Nations had to evacuate Kismayo in October because of looting, hijacking of aid planes, intimidation and death threats against UN aid workers. The last three UNicef passenger planes into Kismayo have all been robbed at gun point.

Several ships have been looted while docked. In the last food shipment, only 20 per cent reached the most severely affected starving people. The rest of the trucks controlled by the local "authorities" were "diverted".



Robin Oakley (right), US special representative for Somalia, meets Ali Mahdi Mohamed, who describes himself as interim president of the country, in Mogadishu

"Jess cannot control the men with guns who do what they want and take every opportunity to grab and take," says Mr Devereux.

Col Jess said he had done as much as possible to get food to his people. He did not get a cut from the looting, only a "few taxes" collected by local authorities under his control.

"The UN have destabilised Somalia, refused to help us and committed crimes which must be investigated and punished," he said. He also warned he would

fiercely resist efforts to turn Somalia into a UN trusteeship. "We will fight anybody who wants to colonise us again. We want to be independent and free."

Like other warlords Col Jess says he will welcome troops but expects them to entrench the position he has established by force. He expects US troops to disarm the bandits, feed the starving, develop the country and then get out and give him his slice of power back. As soon as this illusion fades

he, like the others, will become less welcoming. The problem for Washington will come after the initial euphoria when they are sucked into the complicated twists of Somali politics and the clan structure they may not understand.

"Somalis can never give up their clan-armies," said one of Col Jess' aides. "We have to have our gunmen to protect our people and our interests. You must understand this. America can do nothing about it. It is part of our culture now."

WEU chief calls for effective military measures in Bosnia

By Robert Mauthner, Diplomatic Editor, in London

COUNTRIES IN western Europe should take more effective military measures to deal with the Bosnian crisis, Mr Wim van Eekelen, secretary-general of the Western European Union, said yesterday.

The measures should include the establishment of "safe havens" for the Muslim population of Bosnia, as western allies had done for the Kurdish population in northern Iraq, and the provision of military air cover for aid convoys.

At a vaudeville press conference in London before the 10-nation defence organisation moves its headquarters to Brussels next month, Mr van Eekelen said the United Nations operation in Bosnia "has probably reached its limits, as far as peacekeeping is concerned."

He did not think that either

China or Russia would agree that the UN should become militarily involved in Bosnia, beyond its present task of providing protection for humanitarian aid convoys. That was why he believed the European countries should take a lead, if necessary outside the UN context.

Mr van Eekelen recognised the reluctance of all countries to become "massively engaged with ground forces" in the former Yugoslavia. But the European countries should set themselves more limited objectives and then make sure that they were attained, which was not the case at present.

"Military measures are sometimes necessary to achieve political objectives," Mr van Eekelen added. "Our credibility is zero politically because we are just not doing anything."

Mr van Eekelen said that while the joint Nato-WEU naval blockade in the Adriatic had been suc-

cessful in preventing supplies reaching Serbia and Montenegro by sea, much tighter controls had to be imposed to prevent sanctions busting on the Danube.

Aircraft should be provided to protect aid convoys and should be authorised to fire back if a convoy was attacked or remove any obstacles in its way.

Mr van Eekelen said a more dynamic and independent European defence posture was particularly necessary in the light of the progressive withdrawal of US troops from Europe.

Although he hoped the American military presence in Europe would be maintained at a reduced level, the only chance of preserving Nato as a viable organisation was to transform it into a genuine two-pillar alliance. It was no longer just a question of burden-sharing, but more equal partnership.

Continued from Page 2

Hopes rise for Danish deal

Continued from Page 1

his tour of capitals ahead of the summit had drawn speculation that Anglo-French relations have deteriorated significantly during Britain's six-month presidency of the Community.

The Brussels talks yesterday were aimed at meeting Denmark's demands for opt-outs on a common European currency, a putative European army, justice matters and EC citizenship. Mr Jean-Claude Frix, head of the European Council's legal services, who helped draft the UK paper, declared that the UK formula for the 12 heads of government to take a "decision" on Denmark's demands would not require member states to ratify Maastricht.

Foreign ministers and Mr Jacques Delors, European Commission president, also contrasted their still unresolved differences on subsidiarity - decentralising decision-making - and making Community business more open and democratic.

World Weather				Greek party sniping, Page 2				
	°C	°F			°C	°F		
Algeria	12	54	Buenos Aires	10	50	Uppsala	12	54
Amsterdam	10	50	Calcutta	28	82	Tokyo	10	50
Athens	17	63	Cairo	20	68	Toronto	10	50
Bahia	22	72	Chengdu	10	50	Tunis	10	50
Bangkok	28	82	Chicago	10	50	Valencia	10	50
Barcelona	13	55	Colombo	28	82	Vancouver	10	50
Beijing	3	37	Copenhagen	10	50	Vladivostok	10	50
Bombay	28	82	Corfu	10	50	Warsaw	10	50
Buenos Aires	10	50	Dallas	10	50	Washington	10	50
Calcutta	28	82	Delhi	10	50	Zurich	10	50
Cardiff	10	50	London	10	50			
Chengdu	10	50	Los Angeles	10	50			
Chicago	10	50	Madrid	10	50			
Colombo	28	82	Moscow	10	50			
Copenhagen	10	50	New Delhi	10	50			
Corfu	10	50	Osaka	10	50			
Dallas	10	50	Paris	10	50			
Delhi	10	50	Rangoon	10	50			
Denver	10	50	Sao Paulo	10	50			
Diary	10	50	Seoul	10	50			
Dublin	10	50	Singapore	10	50			
Edinburgh	10	50	Sydney	10	50			
Fukuoka	10	50	Taipei	10	50			
Geneva	10	50	Tel Aviv	10	50			
Hankow	10	50						
Hong Kong	10	50						
Imbabura	10	50						
Interrima	10	50						
Isahaya	10	50						
Jakarta	10	50						
Johannesburg	10	50						
Kobe	10	50						
Kuala Lumpur	10	50						
Laos	10	50						
London	10	50						
Los Angeles	10	50						
Luxembourg	10	50						
Madrid	10	50						
Moscow	10	50						
Mumbai	10	50						
Muscat	10	50						
Nairobi	10	50						
Nagasaki	10	50						
Nanjing	10	50						
Nassau	10	50						
Nice	10	50						
Osaka	10	50						
Paris	10	50						
Rangoon	10	50						
Sao Paulo	10	50						
Seoul	10	50						
Singapore	10	50						
Sydney	10	50						
Taipei	10	50						
Tel Aviv	10	50						

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NOVEMBER 1992

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TRAFALGAR

Call for stricter UK rules
in wake of Maxwell affair
Page 2

SECTION III

Once a dreary backwater of telex machines, clerks and computer tapes, global custody has become the focus of international rivalry. The effect has forced banks to think of new products to lure clients. **Norma Cohen reports**

Competition livens up

A CROSS-BORDER securities settlement and administration product, global custody has for years been little more than a back office operation, far from the glamour of banking.

In recent years, however, the business, once a dreary backwater of telex machines, clerks and computer tape, has been the beneficiary of large amounts of capital investment, as new bank competitors have entered the market.

The US-based commercial banks which have dominated this business are increasingly being challenged by the rise of strong international competitors, particularly in Japan and Continental Europe, and by investment banks which have only recently fully understood how to capitalise on their traditional role as master custodian for clients.

The effect has been a scaling-down of fees to levels previously undreamt of, forcing banks to think of new products which will make their service stand out from that of their competitors.

Earlier this year, the industry drew a collective gasp that State Street Boston, one of the top 10 custodians, planned to change the US's largest institutional investor, the California Public Employees Retirement System, less than one basis point for global custody services.

A typical portfolio for a

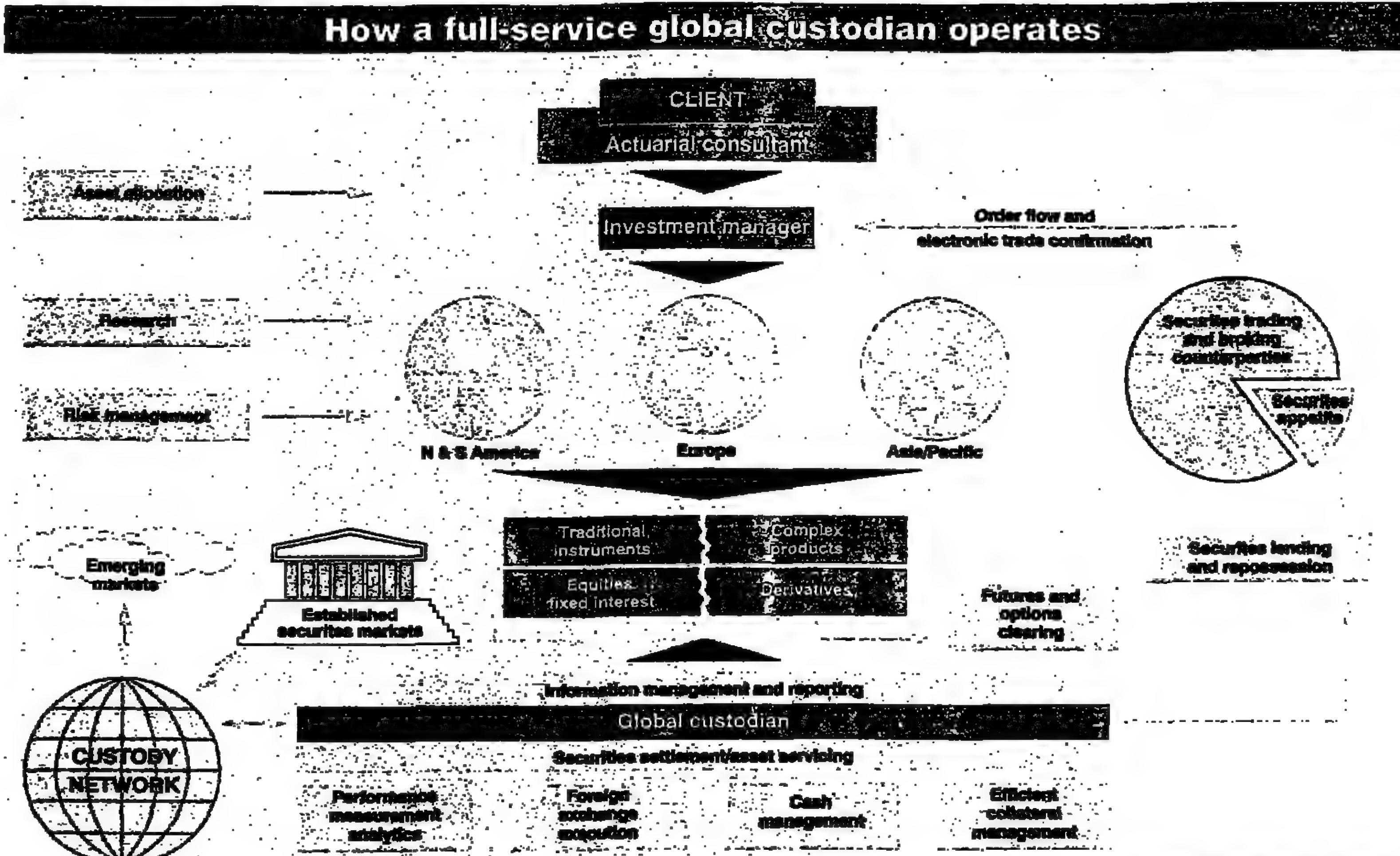
global custody client might carry fees around six basis points - down sharply from the 20 basis point fee which would have prevailed just five years earlier, according to Mr Michael Borkan, head of client relations at Bank of New York.

Fee pressures on European managers - who do not make custody charges public - are more modest than in the US, but custodians say that European clients will seek lower fees eventually as well.

In addition, the admission of fund managers - the clients of global custodians - to the international bank payments system known as Swift, raises some ominous questions for the future of some custodians. Clients will now be able to transmit instructions directly to, say, a sub-custodian bank in Thailand, bypassing the global custodian entirely.

"Fund managers may well communicate directly with each other and with subcustodians directly," says Mr Robert Meyrick, head of Barclays Global Securities Services. "Fund managers may eventually grow out of their need for global custodians," he says. Only by providing services such as cash management to an increasingly sophisticated clientele can custodians continue to retain their customers.

There are two main reasons why banks are eager to be in a business where fees are falling



and competitors rising.

First, custodians have learned how to exploit certain ancillary aspects of transactions banking so efficiently that only a relatively small proportion of global custody revenues need come from client fees.

According to Mr Richard Foster, partner at the financial services practice of management consultants, Booz Allen, a study of the business has shown that no more than 50 to 60 per cent of custodians' revenues come from client fees. An additional 20 to 30 per cent of revenues comes from the ability to earn interest on clients' cash balances, and the rest from foreign exchange transactions on behalf of customers.

Most clients are too sophisticated to allow their banker to exploit these inefficiencies at their expense, but they can still be sold bolt-on services such as cash management and foreign exchange dealing.

Moreover, with falling loan margins and rising write-offs from bad debts, banks are anxious to seek out fee-based services which are more likely to withstand the pressures of the present recession.

Ms Diane Glossman, banking analyst at Salomon Brothers, notes in a recent study of transactions banking in the US, that over the past decade, non-interest income at large US banks rose to 40.6 per cent of total revenues in 1991, from 26.0 per cent in 1981.

And while the largest portion of that has been from fees on client accounts, for some banks transactions fees have been quite significant.

"Given that we expect loan demand to remain lacklustre in the face of an unusually slow economic recovery in the US, we believe that banks will continue to seek fee income as a replacement for volume," Ms Glossman said.

Banks are willing to continue to invest large capital sums in their global custody businesses, Ms Glossman notes, because large economies of scale are available to the biggest participants, enabling them to charge competitive fees to clients.

Indeed, Booz Allen estimates

that the doubling of assets under a custodian's control translates into a 35 per cent reduction in costs.

There appears also to be a return to more broadly-based banking relationships as the largest companies reduce the number of banks with which they conduct business. "Clients and banks are looking for linkage between products and relationship pricing," Ms Glossman says. Thus banks with a wide product range can capture clients more fully.

Some bankers acknowledge privately, too, that greater credit provision can be extended to a custody client because the investment portfolio offers the lender a greater comfort about liquidity and

solvency.

Too many firms have, nevertheless, entered the global custody business, for it to be profitable for all. "We are looking for more consolidation," said Antonio Wever of Booz Allen.

Already, Mellon Bank's recent acquisition of blue-chip Boston Safe Company is regarded as a signpost to the future.

The successful businesses which remain will be those which have most closely integrated global custody functions with other banking services. This means not only the ability to integrate the traditional master custody business with other services, such as cash or foreign exchange management, but also to present information to clients in an integrated fashion.

IN THIS SURVEY

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- Profiles: State Street Boston; Swiss Bank Corporation Page 5
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Editorial production: Roy Terry

ion. Bank of New York, for instance, says it is developing a product which will allow clients to see not only their securities positions on a daily basis but all the supporting positions in derivatives or short sales elsewhere.

Such a product is of great interest to clients with investment portfolios which commonly include all sorts of exchange traded and bespoke futures and options, as well as complex hedging strategies.

Some of the US commercial banks who were the traditional industry leaders might find themselves somewhat disadvantaged. Booz Allen has concluded, because their global custody business was developed as a service distinct from that of domestic custody. "The merchant banks - such as Goldman Sachs and Morgan Stanley - may be the next industry leaders," says Mr Foster.

Investment banks have been best able to exploit the opportunities for international securities lending which are offered to global custodians.

This business alone can provide profits to justify entry to the business, Booz Allen has concluded.

Furthermore, many of these traditional operators have been saddled with enormous duplication of services within their business which drives costs up considerably.

It will be the ability to slim services down and eliminate many of the manual operations now required of custodians which will determine who will be profitable and who will fail by the wayside.

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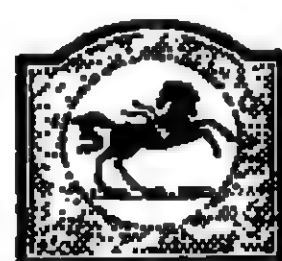
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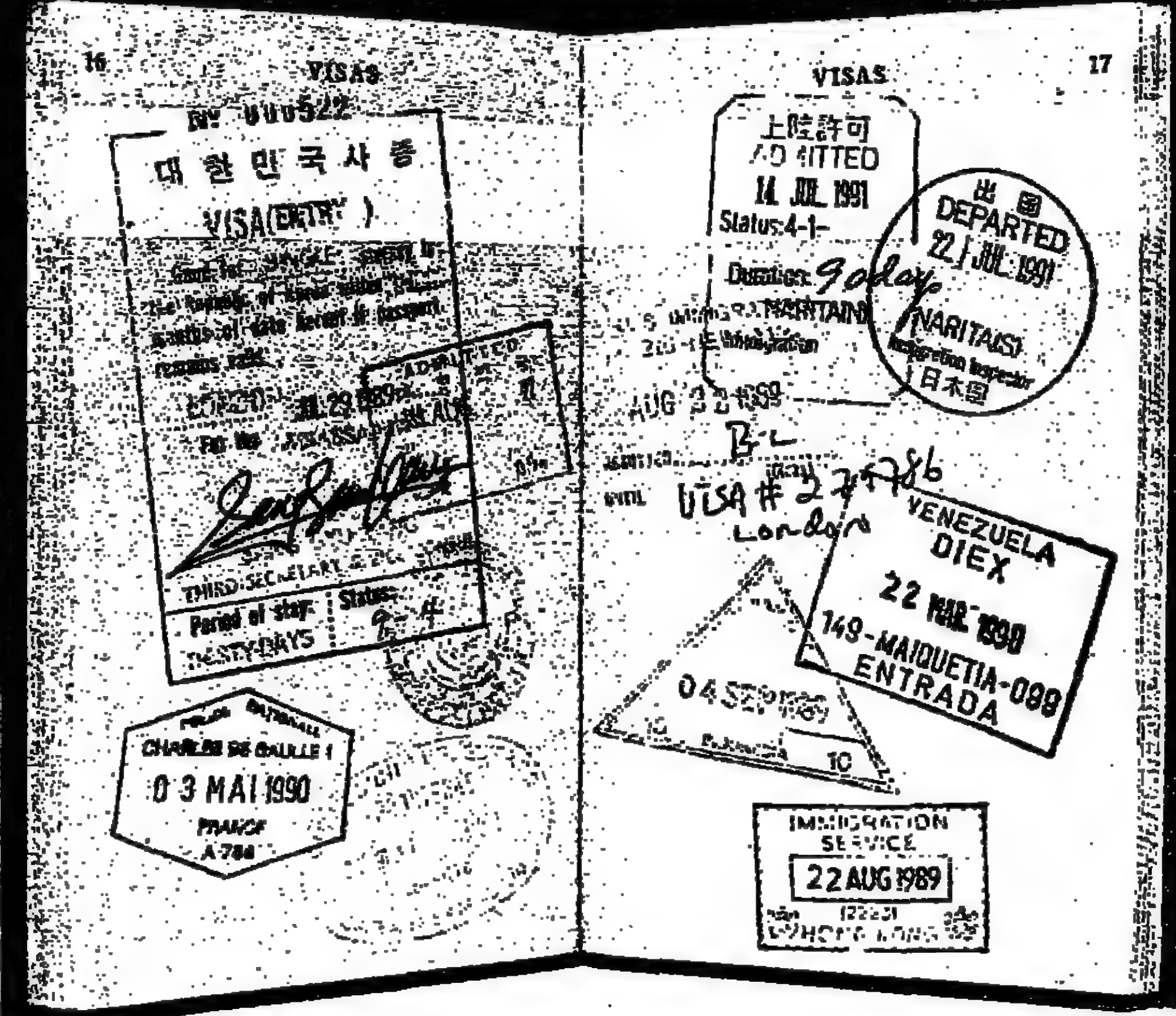


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GLOBAL CUSTODY 2



Pensions probe: Kevin and Ian Maxwell appeared before the House of Commons social security select committee after the death of their father

THE CUSTODY business is the one area of the financial services industry that is still unregulated. However, it is not likely to remain so.

The death at sea on November 5, 1991, of Robert Maxwell, chairman of Maxwell Communications Corporation, sparked an investigation which revealed more than £400m was missing from pension schemes he controlled. The way in which assets disappeared has called into question the role of custodians and the rules under which they operate.

After Maxwell, UK controls are under scrutiny

Call for stricter rules

Using a series of transactions nominally labelled stock lending - although, in fact, it bore little resemblance to such practice - ownership of shares passed from the pension fund managers and custodians to other Maxwell-owned companies. The ease with which this

was achieved has dismayed MPs, who are demanding new rules to regulate pension schemes, fund managers and custodians.

The government has appointed an independent committee, headed by Professor Roy Goode, to study pensions

law, especially as it applies to custodians, and to make recommendations. And in March, the cross-party Parliamentary select committee on social security, which has held extensive hearings into the Maxwell affair, also suggested fund managers be required to

use a separate custodian for assets under their control.

The idea has alarmed the UK's largest fund managers, almost all of whom operate custodial companies and derive significant fees from them. The National Association of Pension Funds, which has also called for the regulation of custodians, has suggested a more modest measure. It believes that custodians should only be separate from the fund manager for those pension funds which are managed in-house. That suggestion, however, has upset the UK's largest banks which are both fund manager and custodian for their own pension schemes.

The sums are not inconsiderable. More than two-thirds of the assets of Lloyds Asset Management belong to its own pension scheme and Barclays de Zoete Wedd manages more than \$6bn of Barclays Bank pension scheme assets.

Perhaps the most contentious issue for custodians has been the suggestion that securities be registered in designated names. Mr Robin Ellison, partner at pensions solicitors Ellison Westthorp, says the idea is unsound. "If you put £5 in the bank one week and then go back the following week to withdraw it, you simply ask for £5. You don't say 'I want my five pounds'."



stant reconciliation of files, a cumbersome manual process that frequently led to errors in valuing client accounts when securities were filed incorrectly. When trading volumes rose sharply in 1987, the practice was abandoned. A return to it, would create more prob-

lems than it would solve.

In the aftermath of the Maxwell affair Mr John Quarrell, a partner at solicitors Nabarro Nathanson and a leading pensions lawyer, advocated requiring securities to be held in designated names, on the grounds that such a move would have alerted securities firms to the true owners of shares received as collateral for personal loans to Mr Maxwell. "Since then, I've moved my position. I've been persuaded by the well-run houses that it is the auditing and the financial controls internally which matter most."

The argument in favour of designation is best summed up, however, by one example. Robson Rhodes, administrators to the Maxwell fund management company Bishopsgate Investment Management (BIM), were able to recover £27m of shares in Teva Pharmaceutical, an Israeli company, from National Westminster Bank because of designation. Although the shares were pledged as collateral to Robert Maxwell's private interests, they were held in the name of BIM, a firm whose sole purpose was to manage pension fund assets. Thus, the liquidators were able to argue, NatWest should have been suspicious about the ownership of securities it was accepting as collateral. Not only were the shares returned but NatWest reimbursed the administrators £90,000 in costs.

But, says Mr Roberts, designation will do little to protect pension fund assets because designation is under the control of the custodian. Had BIM changed the designation to that of one of the Maxwell companies, the matter could have been easily covered up.

The answer, he claims, is to improve financial controls on custodians. For instance, audits of a fund manager do not include any review of the assets under custody. His own company has, for the first time, asked its auditors to include a statement about the custody business in the larger annual report.

Also, there should be tighter controls on which pension fund trustees have the authority to order custodians to move assets. While most custodians keep sample signatures on file, they may not necessarily know the powers of signatories.

Mr Roberts says custodians should be required to seek the permission of all trustees of pension funds before an individual is given the authority to move assets.

World financial markets, 1991 (\$bn)

Financial assets	
Equities	7,000.0
Bonds	12,000.0
Mutual funds	
US	1,400.0
UK	100.0
Continental Europe	800.0
Japan	400.0
Total	2,600.0
Asset management industry	
US (1,013 managers)	4,000.0
100 largest non-US managers	4,700.0
Total	8,700.0
Pension fund industry	
US	2,700.0
Canada	200.0
UK	600.0
Continental Europe	700.0
Japan	700.0
Other	300.0
Total	5,200.0
Insurance industry	
US	2,000.0
Canada	200.0
UK	800.0
Continental Europe	1,200.0
Japan	900.0
Total	5,200.0

Source: State Street Boston Corp

Meanwhile, some members of the pensions industry have suggested the UK should adopt US-style ERISA legislation which requires custodians to refuse to carry out orders which they believe or suspect to be improper. That view has been discussed with the Securities and Investments Board, the City's chief watchdog, which is said to favour it. But

Perhaps the most contentious issue has been the suggestion securities be registered in designated names

Mr Roberts argues unless the largely clerical staff employed by custodians receive much better training, the rule will offer little protection.

Moreover, the rule will allow the US banks, which already dominate the global custody business, to claim a further edge on their UK competitors by advertising to potential clients that they have long been following the rule.

Norma Cohen

The G30 settlement targets were unrealistic, says Richard Waters

Timetable proved too tight

short settlement cycle, which is suited more to institutional than retail investors. And the UK does not even have a system of rolling settlement, let alone one that works on a three-day cycle.

Despite the amount of work that still needs to be done, the G30 has few doubts that it was right to set the tight timetable it did. "We recognised that the targets were ambitious," says Mr Julian Gibbs of Barclays, a member of the working party that drew up the recommendations. "But we realised that if we didn't put tight deadlines into our report, people would just delay their decision-making."

The soundness of the G30's proposals has not been denied by the fact its timetable has proved too ambitious, he adds. A recent endorsement by Isco (the International Organisation of Securities Commissions) suggests the G30 was working along the right lines. Earlier this autumn, an Isco

report on settlement arrangements in emerging markets endorsed the G30 recommendations.

Good intentions do not necessarily mean the ideas will ever see the light of day, of course. The appalling state of settlement arrangements in some developing markets has been exempli-

A big hurdle to overcome is settlement within three days of a trade taking place

fied this year by the securities scandal that has shaken India: ancient and decrepit settlement arrangements provided the opportunity for abuse when soaring activity in financial markets outstripped the capacity of the systems to cope with it.

Scandals like that in India, and the need for emerging markets to complete for investment funds, are likely to prompt modernisation. But as

international fund managers are only too well aware, good settlement is usually an afterthought in the opening up of domestic stockmarkets to international capital.

The UK, meanwhile, remains one of the developed countries which is most behind in meeting the G30 recommendations. Clearing and settlement remains largely a manual process, making it prone to errors, and settlement still only takes place up to four weeks after a trade has happened.

Despite this, there is a strong belief throughout the securities industry that London's settlement problems are about to be laid to rest. The Taurus project, which will see settlement first of all automated and then put on to a rolling basis, has entered its testing stages this autumn. A nagging fear that the whole project would eventually be shelved, after more than a decade of debate and planning, seems largely to have been laid to rest

in recent weeks.

For Mr John Watson, the project manager who has led the London Stock Exchange's Taurus development, it is a vindication of several years of effort. He denies that the project is running years late and over budget. "We're now very much at the stage where I said we would be," he says. And he adds that it took four years and around \$20m to build Bolk, the French system - roughly the same time and budget that Taurus's construction will have taken, if it is completed next autumn.

Whether the UK is then ready to move quickly to three-day rolling settlement will depend on what happens in the next few months. Few big UK companies have yet asked their shareholders' permission to amend their articles of association, something that is necessary before they can move to a paperless system for recognising and transferring the ownership of shares. Most are due to hold their annual general meetings in the first part of next year, giving them the chance to make the switch. But if too few make the transition, it will be impossible for the Stock Exchange to move quickly to a shorter settlement period.

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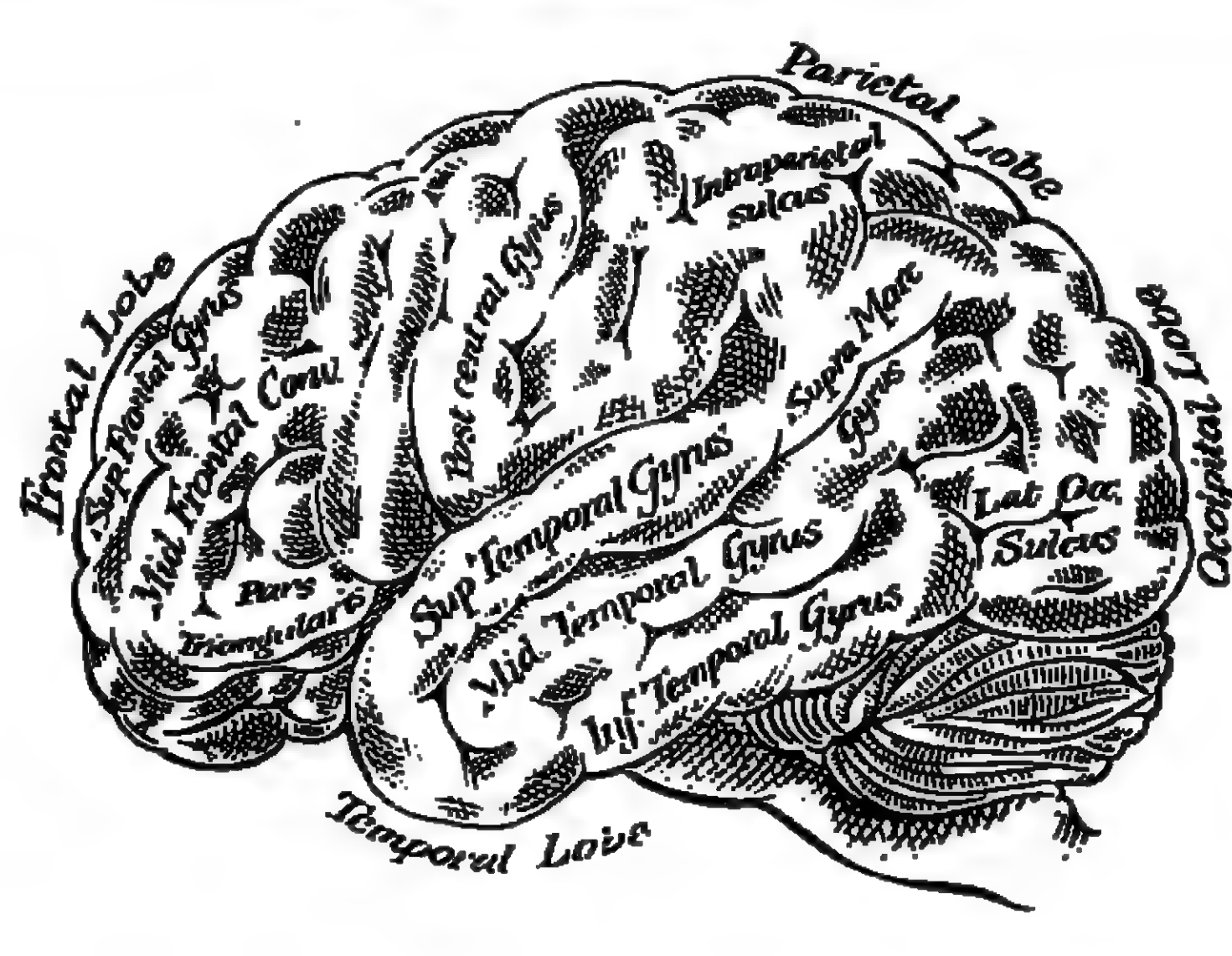
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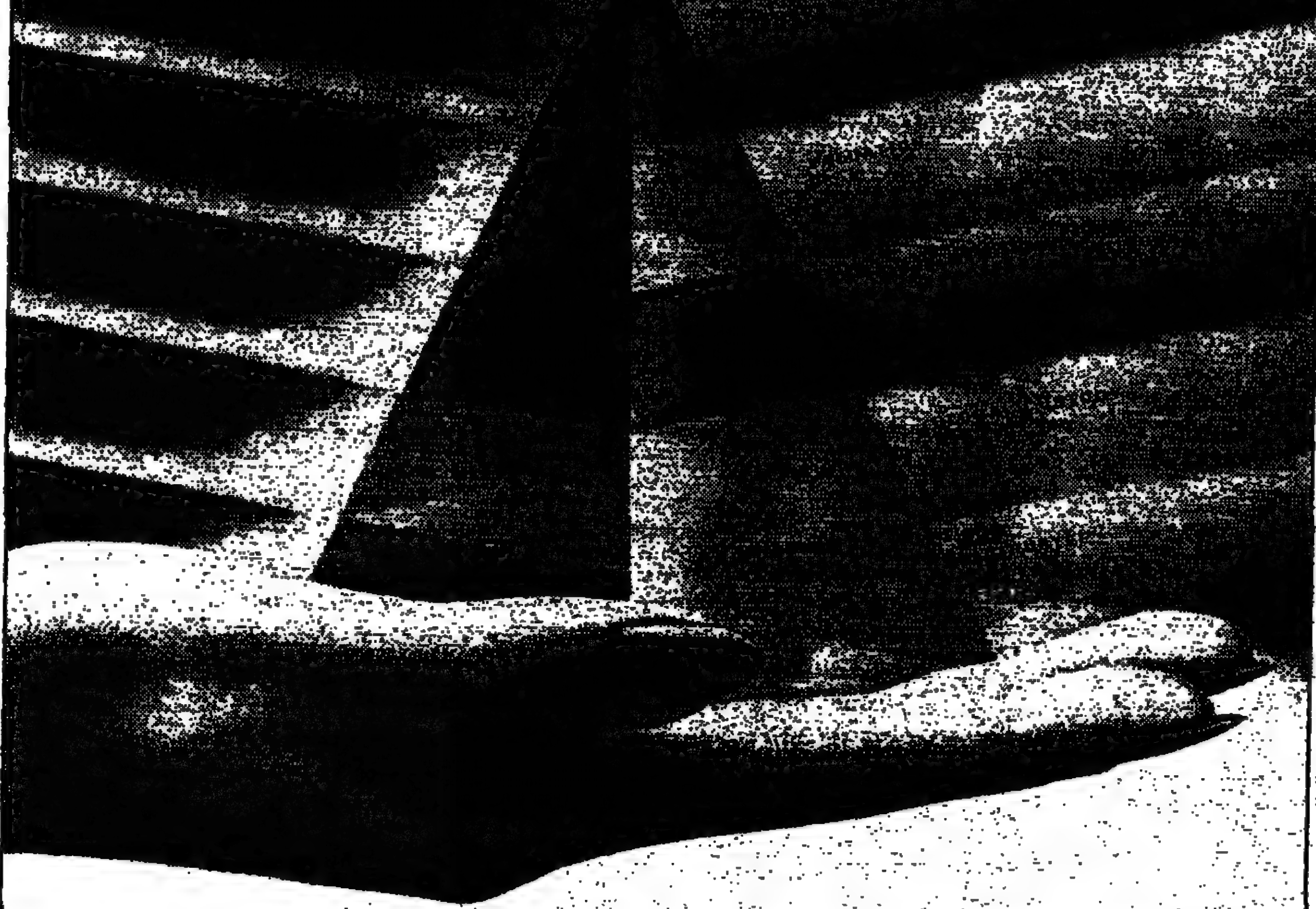
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GLOBAL CUSTODY 3

	Market cap	Total	Turnover	Estimated	Market	Foreign investors as a	
			Foreign investors	Cross-exchange	turnover*	percentage of total investors	
			trading			1990	1990*
Canada	241.9	130.3	31.9	57.8	0.55	23.4%	48.2%
US	3,056.4	3,716.8	380.9	58.4	1.20	9.7	11.1
UK*	858.2	608.2	151.6	85.4	0.71	24.9	34.1
France	304.4	244.2	70.0	57.4	0.80	28.6	44.1
Netherlands*	146.6	97.4	62.4	91.0	0.59	71.3	66.0
Spain	111.4	86.0	15.8	21.4	0.77	18.3	34.6
Switzerland	163.4	546.3	40.0	35.0	3.34	7.3	12.9
Germany	355.3	1,085.0	158.6	143.8	3.05	14.6	24.6
Rest of Europe	384.1	198.8	78.0	84.7	0.50	39.6	57.7
Continent	1,477.2	2,247.7	426.5	443.2	1.52	18.9	32.3
Japan	2,821.7	3,310.7	288.8	163.9	1.17	6.1	12.4
Australia*	107.3	78.5	30.4	8.6	0.74	38.2	44.8
Rest of world	650.3	2,076.1	172.4	55.6	3.19	8.3	10.7
World	9,252.0	15,178.6	1,441.3	873.8	1.32	11.8	17.7

* Rate of turnover to market capitalisation; 2 including cross-exchange trading; 3 intermarket transactions account for 35 per cent of total turnover; 4 Significant off-regulation, off-market or over-the-counter trading occurs in these markets. For example, estimates suggest that the following percentages are traded away from the exchange: at least 50 per cent of Singapore shares and some 30 per cent of Australian shares. Source: IFC and Salomon Brothers Inc.

Andrew Jack focuses on the practice of stock lending in the UK

Code of practice demanded

STOCK LENDING has risen from the depths of obscurity to new heights of public awareness in the past few months - but for all the wrong reasons.

The legacy of the late Mr Robert Maxwell has done more to publicise and in some ways more to damage the reputation of the activity than millions spent on advertising could ever have achieved.

Poor controls on stock lending at Bishopsgate Investment Management, the trustee and manager of Maxwell pension funds, with widely-known consequences, have helped further stoke existing fears from lenders that stock lending is a high-risk business.

Yet Mr Simon Thomas of Davis International Banking Consultants believes the practice has suffered unfairly as a result. "Maxwell has dented people's confidence," he says. "But it has been totally misunderstood by commentators. The market has been rather weak at defending itself."

He argues that the episode highlights the lack of supervisory control over pension fund management, and the value of dealing with well-regulated counterparties. "What is quite clear is that there are no standard legal agreements for stock lending," he adds. "It has to be improved."

Nevertheless, the role and growth of international stock lending is widely endorsed by market professionals. As Mr Ian Plenderleith, an associate director of the Bank of England and chairman of its stock borrowing and lending committee, said at a conference this summer, it has helped provide both timely settlement and liquidity.

Timely settlement, he said, resulted in improved market safety, cost savings and ultimately enhanced investor protection. Liquidity could only be assured in bear markets if securities could be borrowed.

Stock lending also helped channel savings into investment, he added, by bringing together lenders with borrowers where they can raise funds on finer terms.

He called on the industry to boost its public information efforts and to develop a code of



good practice to help counter what he called public "misunderstanding".

In spite of the reservations expressed in some quarters, there has certainly been a significant growth in demand for international stock lending over the past few years, driven directly by the expansion of cross-border investment and international securities trading.

There have been considerable technological advances,

The Maxwell episode highlights the lack of supervisory control over pension fund management

product innovation, and progress towards more efficient clearing and settlement on most of the world's stock exchanges, driven by the pressure since 1989 from the G30, the Group of 30 financial and economic experts.

There has also been a growth in competition, with an expansion in the range of lenders such as UK unit trusts, and of specialist intermediaries.

Future growth, according to Mr Plenderleith, will in part be constrained by tax reform. He highlights the achievement early last year for UK lenders of new accounting arrangements for pools of participants with the Inland Revenue.

Now efforts are being directed towards overseas lenders. He says that agreement on a relaxation of restrictions on the range of international securities borrowers and on the number of parties involved in lending transactions depends on arrangements on the tax

treatment of manufactured dividends.

In many other countries, stock lending has been hindered by demanding tax requirements. For instance, the practice only began to develop in France in 1987, and in Switzerland in 1990 with the introduction of a more favourable regime.

Mr Thomas questions how far lending will continue to grow in the UK. "There is so much resistance," he says. "People have been nervous about stock lending. There are stories of it taking 20 years for a mandate to be signed." He argues that while UK major funds are over-funded and their performance is so good, companies do not see the need. "The pressure just hasn't been there."

Elsewhere, he points to developments in Italy and Germany. Now attention is beginning to focus on Spain. Growing competition puts pressure on margins, which he says can be 100-250 basis points for some international lending arrangements, compared with 30-50 points in the UK.

He sees substantial changes taking place in the future, fuelled in part by Taurus, the Stock Exchange's electronic settlement system, the relaxation of restrictions on international lending, and changing market structures.

In the US, Mr Cindy Gail of Citibank points to the growing role of international stock lending, particularly with European markets such as the UK and Germany. "With a 24-hour book, European centres are becoming very important," she says.

Mr Thomas says it is both a good time and a bad time to review developments in the sector. A series of regulatory changes are underway, many of which still wait to come to fruition.

Mr Plenderleith highlighted three types of safeguards which he said ensured that the inherent risks of stock lending were "identified, controlled and covered".

Bilateral legal agreements signed by the counterparties to ensure adequate collateral, proper authorisation by agents

and clear understanding responsibilities.

Industry-wide rules, agreed practices and tax regulations which govern activity, conduct and appropriate treatment. Supervision from different national regulatory authorities to maintain standards and require adequate capital to cover the risks undertaken.

Maxwell has had some positive effects. It is widely credited with pushing forward legislative change, moving the UK more towards the degree of regulation found in the US. Mr Thomas says it is increasingly focusing on the need for separate professional trustees, and the separation of asset management from custody.

At the moment, he says there is already considerable discretionary power in the UK, but it is not exercised. But he adds: "Some people say it may need another Maxwell scandal to force the whole thing through."

Andrew Jack finds out what fund managers look for in custodians

How to set about choosing the right partner

MR MARKUS RUETIMANN does not suffer sloppy work gladly. Last year he dismissed two of his firm's 25 local custodians after reservations over the quality of the work they provided.

Mr Ruetmann is director of client and market services at UBS Asset Management in London, and a strong defender of the importance of a series of local or regional custodians rather than a single global agent.

The firm uses its own nominees for UK equities, with agents in the UK for gilts and commercial paper. Overseas custody is delegated to some 25 active custodians and 29 inactive custodians.

"We are quite happy to pay a little more to be close to the right partner," he says. "But if the price or service ratio rises, they have to go."

His attitude appears to reflect part of a wider trend shared by other fund managers moving away from global custodians to a more localised and flexible network of regional and local providers.

Yet it stands in stark contrast to much of the perceived market movements in the past few months, substantially as the result of what the industry widely calls "the Maxwell factor".

Global custodians are hard-selling their services partly linked to the fears arising from the stock lending abuses associated with the pension funds in the business empire of the late Mr Robert Maxwell. That has stoked considerable interest, while boosting the role of value-added services

and a shift away from price towards security.

A survey by Phillips and Drew Fund Management of 900 of the largest UK pension funds earlier this year showed a sharp increase in the proportion using or considering using a global custodian.

Its survey one year ago showed that 13.4 per cent were using a global custodian, and 4.6 per cent were actively considering their use. This year, 18.1 per cent said they used a global custodian, and 10.6 per cent were considering employing a global custodian.

But Mr Ruetmann says that few are ultimately persuaded by the arguments. "The firm has not lost a single client." He considers Maxwell to be a red herring for clients. "If there is anything positive about the Maxwell affair, it was to increase the understanding of pension fund management," he says.

It has also had the unintended consequence of vastly increasing the number of meetings with company executives, auditors and others to discuss the issues. "Clients do understand the issues much more than before," he says. "Maxwell had nothing to do with fund management. It was a question of management control procedures."

What he does stress is the importance of using the same system for reconciliation, even though his firm has different managements for investment and asset administration. "The more people involved in reconciliation, the more possibility of fraud and mistakes," he

says. Mr Ruetmann says the benefits of using regional custodians include flexibility, less dependency and greater cost-effectiveness. It allows local negotiations in line with local practice over fees, rather than negotiating a single fee for all markets with a single global custodian.

The result, he believes, with increased competition and reducing margins, will be a reduction in the number of global custodians over the next decade. He argues that the true liabilities are not always put on their balance

sheet. More generally, he cites "the 7 Cs" of how the firm chooses the right partner:

■ Cash management: with stocks invested in interest-bearing accounts with the interest passed on to the client.

■ Curtailment of risks: ensuring that potential custodians have appropriate systems, controls and insurance.

■ Competitiveness of fees: to be offset against quality of service provided.

■ Credit-rating: examining the net assets and ensuring the balance sheet of the agent is healthy.

■ Communication and technology: how easy it is to communicate with agents and maintain links with them.

■ Customisation capabilities: now that custody is becoming more commoditised.

■ Commitment and comfort: with regular checking of compliance backed up by personal visits.

The jury may still be out on the future balance between global and regional custodians, but the next few years will certainly see plenty of dynamism from more aggressive fund managers to respond to changing demands.

Since June this year, fund managers have gained access to Swift, the electronic funds settlement system, which allows them to use the standardised messages facility.

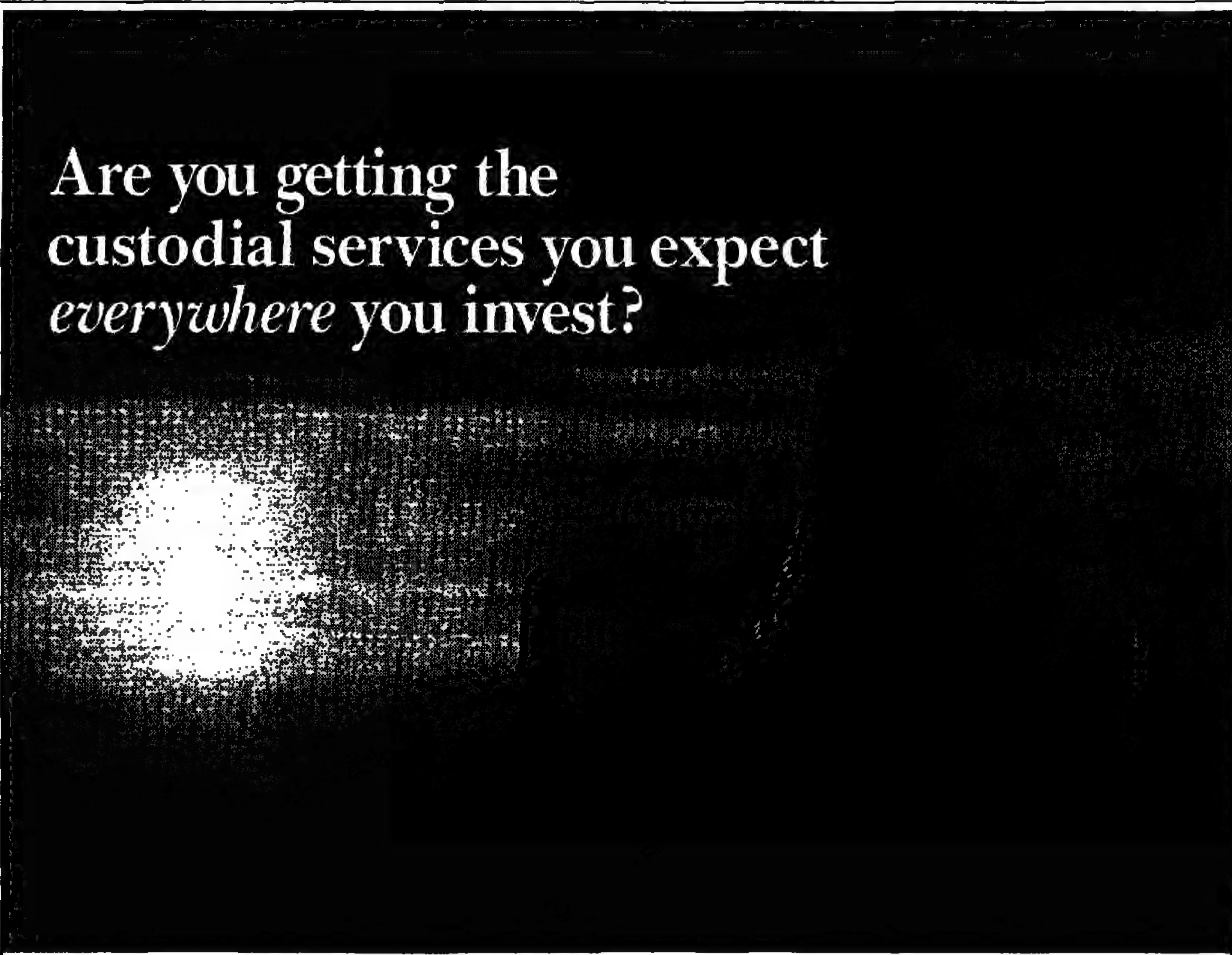
OK, I AM NOT HERE TO COMPROMISE ON SECURITY TO COMPETE ON PRICE.

sheets, so their position may be weaker than it appears.

There have also been considerable other changes affecting the relationship between fund managers and custodians in the last few months, which have made the services more commoditised.

Since June this year, fund managers have gained access to Swift, the electronic funds settlement system, which allows them to use the standardised messages facility.

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GLOBAL CUSTODY 4

Emerging markets are attracting more attention, says Norma Cohen

Foreign opportunities beckon

IT IS said that in Turkey, the secondary market for stocks and shares consists of men outside the exchange building selling suitcases full of certificates for cash.

While that may be an exaggeration for Turkey - or indeed for many of what are now known as emerging markets - it offers a glimpse into one of the most problematical, but potentially most interesting and lucrative, aspects of the global custody business.

Deciding on exactly which markets are still emerging is a subject of some debate, but broadly speaking, most Latin American markets, many Pacific Basin markets and

ness to take on greater risk has been prompted by the intense competition for new business.

"One area which has caused fund managers a great deal of difficulty was the reluctance of custodian banks to offer their services until long after the market was open to foreign investors," said Mr Jeremy Paulson-Ellis, chairman of Genesis Investment Management, a company which invests exclusively in emerging markets. "With banks losing large amounts of money elsewhere, the custodians are not willing to put in the necessary development capital to emerging markets," he said.

Entry to an emerging market requires not only investment in technology, but also expert knowledge of securities and banking regulation, market practice and tax law.

Mr Ranjit Chatterji, head of Latin American securities at Citibank's global custody operations, said that part of the complaints from fund managers stems from the inability of banks to overcome the very real operational difficulties of trading in these markets. Derivatives in emerging markets has raised investors' expectations beyond the capacity of markets to receive their cash.

"Regulation isn't always well designed in attracting investment flows because there is too little investment in settlement and post-settlement systems," he said. "This leads to a mismatch between investors' expectations and what can be done." Also, many of the countries deregulating their securities markets have also been simultaneously deregulating their foreign exchange markets, although not necessarily in tandem. The inability to obtain local currency for investment or to earn a return on it while it lies idle, has frustrated institutional investors.

Emerging markets fund managers note that just as the quality of service from custodians varies, so, too, there is a wide range of fees. In a recent analysis of fees, one fund manager said he found a 42 per cent variation between the highest and lowest fees charged by any of his custodians on an average \$100m portfolio and a 26 per cent variation

COUNTRY FOCUS LIST

Primary

Companies operating in the following countries are currently considered for investment

Asia and Pacific	Europe
India	Greece
Indonesia	Hungary
Korea	Poland
Malaysia	Portugal
Pakistan	Turkey
Papua New Guinea	Middle East and Africa
People's Republic of China	Botswana
Philippines	Zambia
Sri Lanka	Argentina
Thailand	Chile
	Mexico
	Venezuela

Secondary

Countries to be monitored with a view to future investment

Asia and Pacific	Middle East and Africa
Bangladesh	Nigeria
Fiji	Swaziland
Europe	Tunisia
Czechoslovakia	Zimbabwe
	Caribbean and Latin America
Middle East and Africa	Costa Rica
Egypt	Jamaica
Ivory Coast	Trinidad and Tobago
Jordan	Bolivia
Kenya	Colombia
Malawi	Ecuador
Mauritius	Peru
Morocco	Uruguay

Source: Genesis Investment Management Limited

in fees on a \$50m portfolio. "There was no correlation between fees and service," the fund manager said.

It is not that fund managers do not appreciate the risks of being a custodian in some of these global markets. "There are markets where you shouldn't invest at all," said Mr Richard Watts, head of

Latin American investments at Gartmore Fund Management. "The custodial operations are poor, the stock market practices are poor, the market isn't transparent and the locals don't play by the rules."

Mr Watts said that in Venezuela, for instance, where settlement is officially three to five days after trade date, he

has found settlement may not actually take place for 125 days after trade date.

Citicorp has found that while failed trades occur in roughly 10 per cent of all bargains in Latin America as a whole, in Venezuela the figure for failed trades is 70 to 80 per cent of all bargains.

In India, there are 19 separate exchanges, the largest of which is in Bombay. In Indian market practice, there is no delivery against payment. Also, due to settlement delays brokers can find themselves holding cash and securities for considerable periods. Buyers and sellers are exposed to the broker for the entire settlement period. Such inefficiencies leave custodians open to risks which they are unwilling or unable to accept.

Also, the information base on which custodians must act is poor in many emerging markets. For instance, in some countries, there is no up-to-date central register of stock ownership. As a result, clients may be unaware of corporate actions such as stock splits or dividend increases.

Local regulations also hamper development of efficient custodial systems. For instance, in Pakistan a rule requiring foreign investors to re-register every time stock changes hands means a foreigner buying a share is effectively forced to hold it for up to 75 days until registration is completed.

Institutional investors say the best custodians are those who learn the nuts and bolts of markets and work with local authorities without considering the operational difficulties. Meanwhile, Templeton's Dr Mobius said one means of dealing with troublesome local markets may be Citicorp's idea of designating a single local sub-custodian in each market. The single sub-custodian might then be encouraged to make a substantial capital investment in improving the service it offers in that market because it would have a captive clientele. Citicorp says that in markets where it is a sub-custodian, it would designate itself.

But other fund managers are sceptical. "I would never leave myself in a monopoly supplier situation," said Mr Paulson-Ellis.

Placing too great a reliance on a single sub-custodian, could hinder the ability to negotiate the best price for the service or to select a competitor if the service deteriorates.

Tracy Corrigan discusses derivatives

New challenge looms

THE increasing use of derivative products by investment managers has created new competitive challenges for global custodians. The complexity of the instruments involved, and their relationship with the rest of an investment portfolio, requires more sophisticated reporting than straightforward equity or bond trades, as well as strong operational support.

Although futures markets have existed for several decades, it is only recently that derivatives have started to be viewed as investment as well as trading instruments.

But, while the development of structuring and trading of derivatives has been at the top of banks' agendas for a couple of years, banks have been slower to react by gearing up their global custody business to meet these new demands.

"Typically, old custodial systems were designed to track the positions of physical securities," said Mr Aidan Dennis, product development manager, global securities services, at Chase Manhattan. "Now we're heading into a paperless environment and there are new techniques such as short-selling. Derivatives are just one part of an enhanced investment strategy."

Systems now have to be able to perform an increasingly wide range of functions. Fund managers require a system which can record any open positions, consolidate positions across accounts, value positions, calculate full economic exposure, measure performance and track collateral. With constraints on capital, some banks have been slow to make the necessary investment in terms of systems and personnel needed to offer a full service for derivatives.

"I think one-stop shopping for derivatives will happen, but it requires substantial investment in much more dynamic systems," said one custody specialist at a large bank. "It will take a few years before it is widely available."

The reporting of positions forms a crucial part of the global custodian's function in the area of potentially risky derivatives. For institutions to

gain the maximum benefit from reporting, it is not enough for custodians to detail every individual position. For example, if an investor has a long position in Company A equity warrants, and is short Company A shares, the overall neutral position should be shown, rather than two separate positions. "There is a need to account for the use of derivatives in a manner which most accurately reflects the investors' use of strategy," said Mr Alex Ehrlich, executive director at Goldman Sachs.

Investors who have studied the issue agree. "The report-

Derivatives have only recently been viewed as investment as well as trading instruments

ing of derivatives] will have to become part of the standard service," said Mr Glyn Pest of Lazard Investors, who chaired the Pensioners Research Accountants Group's futures and options working party.

Different types of derivative products demand different approaches. For example, for institutions which are active in exchange-traded futures, one function of the global custodian is to handle the payment of margin requirements. Because of their size, custodians can take advantage of economies of scale, as well as swapping an investor's assets for comparable assets which can be used as collateral for margin calls.

However, they are effectively competing against brokers, who perform functions such as margining and exposure management. To win business away, they will have to offer a more comprehensive service, which many custodians have not yet developed.

The issues surrounding over-the-counter options are more complex. First, valuation of such options is difficult, since there may be no active market and options values shift constantly. Further, price movements are not in proportion to cash market movements.

The issue of reporting and performance measurement has

come under focus this year, as more fund managers start using derivatives, and trustees struggle to get to grips with the concepts involved. Early this year, the London International Financial Futures Exchange (LIFFE) and Mercer Fraser published recommendations for the reporting of financial futures and options in investment portfolios, designed to provide UK pension fund managers with professionally-agreed standards of performance measurement of derivatives for the first time.

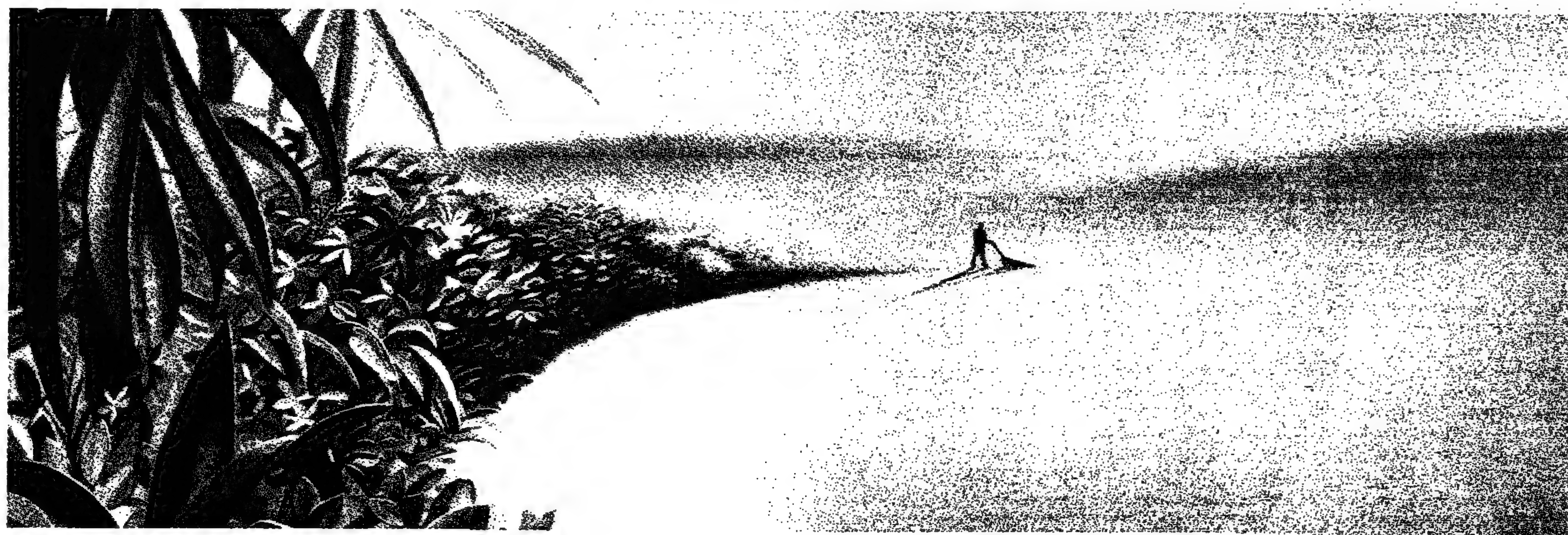
The new guidelines allow trustees to assess more easily whether fund managers are using futures and options for investment or hedging purposes, or whether they are taking more speculative positions.

Building on the LIFFE recommendations, the Pensioners Research Accountants Group (Prag), an association of 200 UK pension fund practitioners, last month published a document on the use of futures and options by pension funds which provides broader guidance for trustees, investment and pension fund managers on how best to meet reporting, control and performance measurement demands.

The report focuses on strategies and risks to be considered by trustees and ways of constraining investment managers. Prag supports LIFFE's view on reporting futures on an "associated economic exposure" basis - looking at the total exposure of a particular position, rather than just taking account of the initial margin payment. In the more complex area of options, the compromise solution is to account for premiums paid and received, and mark option prices to market. In fact, this does not fully reflect exposure, since accurate reporting requires technical calculations of the relationship between cash prices and option prices.

As the participation of investment managers in derivatives business grows, the attention given to back-office problems will also be encouraged. At present, unfamiliarity with the complex products involved has made derivatives something of a lynchpin with the back-office staff.

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National

Eyes on

Profile: SWISS

Stronger

GLOBAL CUSTODY 5

Profile: STATE STREET BOSTON

National powerhouse

THE 200-year-old State Street Boston, has undergone one of the biggest changes since the 1980s, with a new chief executive, Marshall Carter, replacing William Edgerly, State Street's long-standing leader.

Mr Edgerly credited with transforming the institution from a struggling New England bank into a national powerhouse. Mr Edgerly was quick to realise the importance of new technology to State Street's future growth. Shortly after he took over in 1975, he implemented a programme to modernise State Street's data services and turned the bank's focus towards global custody

and securitisation, through mutual funds and money market funds.

Today, it is something of a misnomer to call State Street a bank. Strictly speaking, State Street is a bank holding com-

pany and does handle some lending and a small number of traditional bank accounts, but the bulk of its business comes from servicing financial assets. State Street now has \$1,247bn in assets under custody, with

cross-border assets under custody standing at around \$123bn, up 25 per cent from a year ago.

Mr Carter's appointment came as a surprise and followed the unexpected resigna-

tion of Mr Edgerly's heir apparent, Mr Peter Madden, last year. Although most observers had expected Mr Edgerly to choose another successor from within the ranks of State Street, the choice of Mr Carter

met with widespread approval. Mr Carter, who was at Chase Manhattan for 15 years before joining State Street, is credited with building Chase into one of the biggest global custody businesses in the US.

Investors in State Street Boston have little to complain about. Net income for the third quarter has risen more than 50 per cent to \$41.9m, and the institution's stock is trading at the top of its 52-week range.

Most analysts expect State Street to continue to generate significant new account volume. Earlier this year it won the important \$65bn California Public Employees Retirement

State Street maintains that it attracts its big customers because of its state-of-the-art technology and its full service capabilities

Swiss banks believe the industry is over-competitive, says Ian Rodger

Eyes on foreign customers

SWISS bankers have still not quite got over the anxiety of the big US banks in making a business out of the provision of custodial services.

From the Swiss point of view, custodian service has always been one of many functions carried out by bankers in looking after their customers' portfolios.

And they, as bankers to the world's rich, had been doing it for decades before the Americans put a name on it and in the 1970s turned it into a profit centre.

In fact, Swiss bankers acknowledge US banks were also responding to a new trend in investment - the desire of large investment institutions to hedge their risks by investing a portion of their assets in foreign securities.

Perhaps their pique is related to the fact that they did not see the opportunity first. "We were awakened only after the US banks did it," Mr Ernst Balsiger, executive vice-president of Swiss Bank Corporation (SBC), admits.

Now their view is that the business, which for a while was highly profitable for a few banks, has become over-competitive. "It is simply ridiculous," says Mr Burkhard Gutzelt, head of securities operations and global custody at Credit Suisse in Zurich. "This business is not profitable unless you are dealing in the billions of dollars, and the institutions are pressuring us to cut prices further."

The Swiss say that margins are becoming too thin to justify the investment required in the necessary electronic control and information systems. "You have to invest \$100m plus if you start from scratch," Mr Gutzelt says. "Then you can enhance the system up to a point, but it is like with cars, there comes a point when you have to buy a new one."

He and other Swiss bankers predict that these pressures will lead to the big European clearing organisations, Euroclear and Cede, gradually taking over the global custody business from individual banks, as only these organisa-

tions will have the volume needed to support the immense cost of electronic system development.

Moreover, he predicts, the European banking community will lose its legal struggle to prevent the big investing institutions from having direct access to the clearing organisations. That means many institutions will gradually abandon their banker custodians and deal directly with the clearing organisations for settlement and custody services.

The response of the Swiss

The Swiss say margins are too thin to justify investment in electronic control and information systems

banks to this outlook has been typically thorough and cautious, with a view to providing service where it makes sense to do so and keeping all options open. Fortunately for them, they all have very large private banking businesses in which custody services remain part of the total package of fund management offered to high net worth individuals.

Thus, they have to build up their custody capability anyway, and this capability can then be turned into a commercial product offered to institutions and to foreign custodians seeking sub-custodians in Switzerland.

All the big three banks say they are committed to the local institutional market, and, to differing degrees, are going after institutions in other countries as well.

In part, their interest in seeking foreign customers appears to be a response to the competitive threat from the big US custody specialists in the Swiss market. By all accounts, these incursions are modest so far, and the Swiss are confident that they can hold their own.

But UBS, among others, wants to retaliate. "US custodians are actively penetrating the Swiss market, so we have to use the same weapons. Our

marketing plan is to penetrate interesting markets in the US. Their pension funds are investing more and more overseas," says Mr Josef Landolt, senior vice-president for securities administration.

But with the exception of SBC's large operation in London, the big three have tended to scale down their custodial operations outside Switzerland in recent years, preferring to contract out to sub-custodians and clearing houses in important foreign dealing centres.

Mr Landolt makes clear that UBS's priority is to serve domestic institutions, including smaller banks.

The big three are also members of the European clearing systems, Credit Suisse and SBC in Euroclear and UBS in Cede. They are also the dominant shareholders in Inter-settle, a system intended to serve all Swiss banks, taking over the settlement of their international securities transactions. The Inter-settle system, developed at a cost of more than \$500m, is now being tested, and is due to go into full operation in the first quarter of 1994.

Mr Gutzelt believes Inter-settle will gradually take away much of the banks' Swiss-based global custodial business, but, since it is at least owned by the Swiss banks, that is better than losing custom to the European clearing systems, in his view.

Mr Landolt agrees that Inter-settle could take away custody business, not only from banks, but also from Euroclear and Cede, provided it offers a competitive service. "Personally, I feel we will not channel our total business through Inter-settle. I have the strong feeling that we can continue to attract business from the institutions."

Mr Gutzelt agrees. "It is difficult to draw the line between institutions that need back office support and those that do not. We are strategically well placed because private clients demand a system that is close to what small institutions want."

Mr Landolt suspects that the

Profile: SWISS BANK CORPORATION

Stronger commitment

TWO years ago, the FT published a debate between two senior executives of Swiss Bank Corporation (SBC) on whether the bank was wise to continue to develop its global custody business.

Today, the argument rages on, both within SBC and throughout the banking community, but SBC's commitment to global custody seems, if anything, stronger than it was two years ago.

"We are fully committed," says Mr Ernst Balsiger, executive vice-president of SBC in Zurich, but he also predicts a big shake-out in the sector in the next few years as excessive competition leads to a margin squeeze.

SBC's involvement in global custody is interesting in at least two respects. In the first place, the bank is still trying to carve out a strong independent role for itself in this increasingly competitive business, while the two other big Swiss banks, Union Bank of Switzerland and Credit Suisse, appear to be more cautious. Second, it is running the business in London, not in Switzerland.

But, first, some qualifications and clarifications. All the Swiss banks have been carrying out global custody, in the strict sense of the term, for decades. Indeed, it would probably be fair to say they were pioneers in global custody, for it was their wealthy private clients from around the world who were among the first to accept the idea of a mix of securities from various countries in their portfolios.

Similarly, the big Swiss

banks all carry out global custody for their Swiss and, to varying degrees, foreign institutional customers in Switzerland, and they act as sub-custodians in Switzerland for global custodians based in other countries.

Where SBC differs is in aggressively marketing a global custody service based in London to investment institutions and banks around the world. "All our institutional clients, even Swiss ones, are

An electronic system enables clients to access information at SBC offices throughout the world

directed there," Mr Balsiger says.

The strategic decision to proceed this way was taken three years ago, with the idea being to build on the unusually strong sub-custodian business SBC had built in London over several years. According to Mr Alan Taylor, director of global custody in London, the bank provides this service for nearly 150 non-British banks.

The bank is typically discreet about the size of its London business - "not quite as substantial as that of the UK clearing banks," says Mr Taylor. "We rank as one of the best, but it is not our goal to be the biggest," adds Mr Balsiger. And the business has "broken even", he adds.

The group has developed an electronic system to support its custody operation so that cli-

ents can request information at SBC offices throughout the world.

Mr Taylor dismisses the widespread view that global custody will become a commodity business, thus squeezing out all but the largest players. "When we are asked to compete for an account these days, we often get a 20-page questionnaire to fill out. That is not a characteristic of commodity businesses."

He says there remain many differences in the service features provided by global custodians. SBC, with a staff of 50 in its London operation, emphasises staff training so that client requests can be dealt with intelligently.

The bank assigns a single officer to each client, who visits the client regularly, talks his language and tries to respond to his needs.

Meanwhile, in Switzerland, SBC is pursuing a dual strategy on custodial services. It is a member of Inter-settle, the organisation being set up by many Swiss banks to provide settlement and custody services on foreign transactions. Inter-settle is expected to take over much, if not all, of their Swiss-based global custody business for institutions.

But it is also maintaining a strong custodial capability as part of its total service package for private clients. "There we have an advantage because our private clients will never try to become members of international clearing organisations," says Mr Balsiger.

Ian Rodger

State Street Boston - assets under custody and management (\$bn)

	1986	1987	1988	1989	1990	1991	Five-year cpl'd growth
Assets under custody							
Mutual funds	288.3	315.2	348.0	404.0	429.3	498.4	12%
Customer location							
MT/MC/GC*	108.0	134.9	161.8	242.0	250.3	335.2	26
Corporate trust	NA†	21.3	34.8	35.3	47.0	68.9	33*
Bank services	17.0	17.1	29.7	44.5	44.3	42.2	20
Insurance	5.0	16.1	19.1	21.3	23.1	37.9	50
Other	13.5	10.5	16.7	16.8	21.7	28.1	17
Europe	8.5	9.0	9.4	11.2	11.2	13.2	9
Asia/Pacific	2.5	4.9	8.8	12.1	16.1	31.9	66
Total assets under custody	440.8	529.0	625.1	787.0	841.3	1,054.8	18
Assets under management							
Institutional	23.5	27.0	35.4	53.3	62.2	84.1	29
Personal	2.6	2.8	3.0	3.5	3.4	4.8	13
Total assets under management	26.1	29.8	38.4	56.8	65.6	88.9	28

* Cpl'd - compound, MT - master trust, MC - master custody, GC - global custody, NA - not available; † Four-year compound growth

Source: State Street Boston

System (Calpers) account.

It won the Calpers business by offering to charge about half as much as its closest competitor in fees. The sharp undercutting has led to accusations that State Street bought the business to get market share, and some critics charge that State Street has started a price war which will hurt the bank as well as its competitors.

State Street maintains that it attracts its big customers because of its state-of-the-art technology and its full service capabilities, while its economies of scale allow it to offer reduced fees in a maturing market and still make a profit.

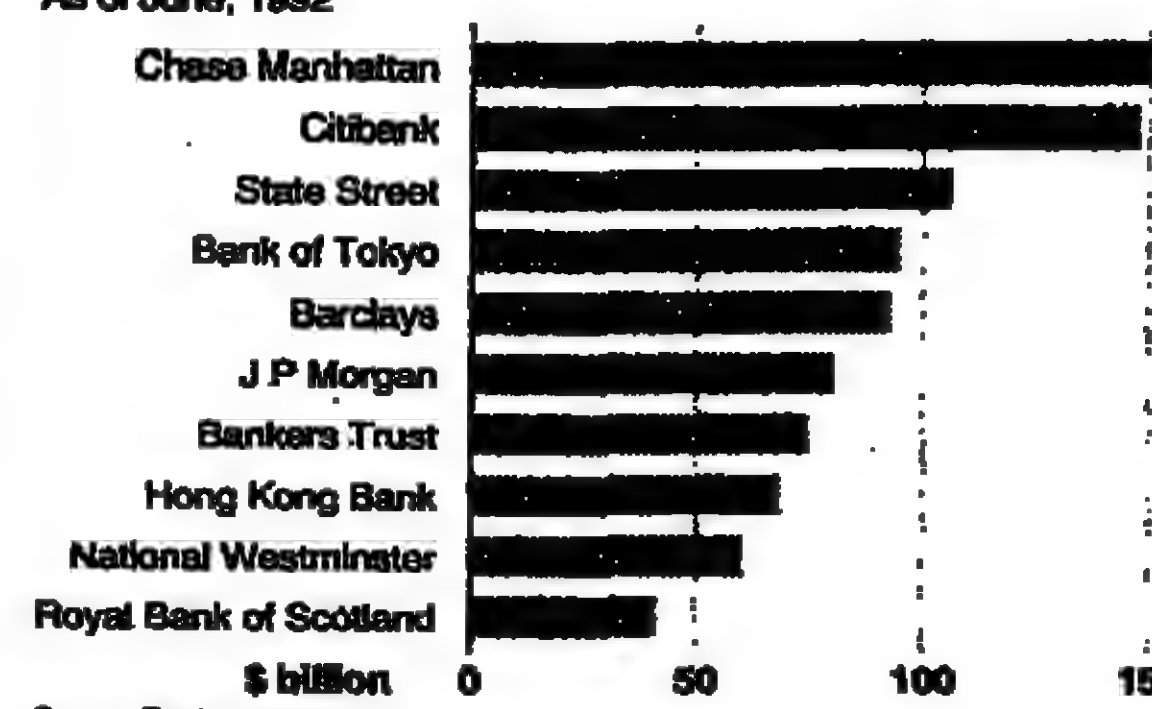
While some see the aggressive bid for Calpers as a sign of a change in the industry, others see the hand of Mr Carter at work, and suggest it as an indication that State Street will become even tougher.

The global custody industry is becoming fiercely competitive after a decade of extremely rapid growth.

The industry's staggering growth in the 1980s was fuelled by public and corporate pension funds moving into foreign investments. But as the industry has matured, the pace of growth has started to slow. In addition, several newcomers have entered the arena, includ-

Top 10 cross-border custodians

As of June, 1992



Source: Equity magazine

ing Morgan Stanley, while the merger of Chemical Bank with Manufacturer's Hanover will create competitive global custody operations.

One way that State Street is responding to the heightened competition is by turning its attention to emerging markets.

"Emerging markets have always been part of our global custody business," says Mr Gundy, "but the range and pace has grown dramatically. We now have a presence in about 46 countries, compared with about 34 countries a few years ago."

Although the rate of growth

in emerging markets will probably slow in coming years, Mr Gundy expects absolute growth to continue. "Institutional investors are looking for exciting opportunities for getting into markets at the earliest possible points so they have a shot at the biggest possible gains."

Mr Gundy believes State Street will also benefit from the Robert Maxwell affair, which has led to a heightened sensitivity to the issue of separating fiduciary responsibility from money management. "It has changed the inclination of institutional investors, who

now want a clear definition of responsibility, separating holding assets from managing assets. I think this will translate into more business for us."

Investing in new technology remains imperative in the global custody industry. In 1991, State Street installed an accounting system to track global securities portfolios in multiple currencies.

But State Street's rivals are also spending heavily on new hardware and software. Citicorp, for example, is pumping \$80m into its securities processing systems for a complete overhaul by 1994.

Mr Gundy expects to see further fine-tuning of State Street's systems to present more information more clearly and more quickly.

So far, the changes within State Street since Mr Carter took charge have been subtle, according to Mr Gundy. "There has been a re-affirmation of our strategy and an increased focus on the business of servicing financial assets. One piece of tangible evidence is the addition of an executive vice-president responsible for all securities operations. That position didn't exist before Mr Carter came."

Karen Zagor

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GLOBAL CUSTODY 6

Richard Waters explores the dream of a global electronic link

Jigsaw of different systems

THE DREAM: global electronic links between institutional investors, brokers and custodians which will reduce the costs of securities dealing and shorten settlement times.

The reality: a complicated jigsaw of different systems in which not all of the pieces fit together, contributing to higher costs and risks for the securities industry.

That, at least, is the present position. But to judge by two initiatives launched in the past year, the dream may be getting much nearer.

The ETC (Electronic Trade Confirmation) project in Europe and ISITC (Industry Standardisation for Institutional Trade Communications) in the US are both co-operative ventures to promote common standards in the way trades are confirmed and settled. Finding a way for these two separate ventures to co-operate will be the next challenge in

developing a single international network.

"A lot of banks and institutions have spent a lot of money on systems - and good systems at that," says Mr Alistair Reid of Morgan Grenfell. "The weak point is when they try to transfer information outside their own organisations. The next level of efficiency is to get systems that speak to each other."

ISITC was formed by a group of investors and custodian banks in the US to promote common standards for communications between the two groups. For the custodians, this marks a considerable shift in strategy.

Most have invested heavily in proprietary systems in recent years, enabling investors to communicate with them directly. These links have helped to the investors to particular custodians, protecting the custodians' income.

Common standards could undermine these proprietary systems, forcing banks to write off their investments while at the same time making it easier for investors to shop around to reduce the fees they are paying.

Custodians admit that there has been a lot of soul-searching over this development. However, they seem to have decided to make the best of it - perhaps out of a desire not to repeat the rearguard action fought to keep fund managers out of Swift, the international financial messaging system, until recently.

Also, the development of common standards may have

only a limited impact on custodians' business, at least in its early years.

Investors with links to a small number of custodians are likely to maintain those connections, since there is no advantage to them changing, says Mr Sean Quinn, client technical services manager of Chase Manhattan in London.

He adds that investors which use a larger number of custodians are generally communicating by facsimile or telex, so common standards for electronic systems could help both sides by making communication more efficient.

Also, existing bank systems can be adapted to fit the new

standards being developed by the ISITC working group and will not have to be scrapped.

Europe's own industry-wide electronic trade confirmation project has also raised questions about the future relationship between different groups of intermediaries in the securities markets. ETC is designed to be built between the three, making it possible for them to confirm trades automatically. Potentially, though, it could provide the basis for an order-matching system on which institutions could trade directly with each other.

While the ISITC project is aimed only at developing common standards, ETC has led to

the selection of three commercial vendors to provide systems which meet standards selected by a representative group of users: the London Stock Exchange, the International Securities Market Association and Thomson Financial Networks. The intention: for links to be built between the three, making it possible for an institution which uses one of the systems to confirm a trade with a broker who uses another.

For now, the backers of ETC say they have more important things on their plate than extending their project to take in trade confirmation. "Order-matching is not a current

intention," says Mr Reid of Morgan Grenfell. "It's still a back office project."

The development of this common infrastructure to support back office operations has not always run smoothly. The Stock Exchange, for instance, has recently appeared to cool to the idea of linking its Sequel trade confirmation system to Isma's Trax and Thomson's Oasys. Pressure from users appears now to have changed its mind.

There is also the danger that the ETC and ISITC developments will tread on each other's toes. Backers of the US project have begun talks for a similar venture in Europe. The supporters of ETC are not enamoured: Mr Chris Smith of Fidelity, one of the instigators of ETC, believes the two projects should be developed by the same group of users.

"I really am concerned it [the separate ISITC development]

will get in the way," he says. He would rather it was developed by the same industry user group which has promoted ETC.

Supporters of ISITC agree there is a danger of duplication. "Too many people are setting up to be standards bodies," says Mr Quinn of Chase. He adds, though, that the ETC group already has its hands full at the moment.

The initial rivalry is likely to give way to closer co-operation in future. Formal talks between institutions involved on each project are already planned, with a view to promoting electronic links between investors and their custodians in Europe.

Unscrambling the jumble of systems in this way should help to bring settlement times down towards the three days envisaged by the G30. As yet, though, it is still more of a dream than a reality.

Barry Riley examines the electronic bank payments system

Move to join Swift is slow

ARE THE leading investment management houses reluctant, like Groucho Marx, to join the type of club that would be willing to have them as members?

Technology, in a tantalising way, is beckoning the investment management industry. A few high-powered personal computers or work stations with the right software and the right interfaces may be all that is needed to wrest control of important aspects of the trading and settlement process from the exchanges, the brokers and the custodian banks. The jurisdictional boundaries may need to be redrawn, but exactly where should they be inserted?

Such battles are being fought in various centres, but in the UK a key area of dispute has been over access by fund managers to the banks' international communications network Swift, which stands for Society for Worldwide Interbank Financial Telecommunications.

For several years fund managers fought to gain access to Swift but were rebuffed. In June 1991 just 68 per cent of the system's members voted to allow non-bank investment institutions into the system, a small margin short of the 75

per cent majority required for this constitutional change.

Some institutions had hoped to use the Swift messaging network to confirm international securities transactions. "Frustration was felt by many fund managers."

The Swift system already existed and it would have been much easier to use that system," says Mr Jonathan Rashleigh, finance director of Legal & General Investment Management.

The rejection triggered proposals by fund managers to find alternatives. An industry user group of institutions and brokers was set up late in 1991 to specify electronic trade confirmation (ETC) products which are now almost ready for the market place. The participants were mostly British but the big Dutch investment group Robeco was involved, and a number of Continental brokers and banks are likely to install the new systems.

In the meantime, however, Swift has changed its mind. In June this year the banks voted 95 per cent in favour of letting the outsiders in, arguing that the upgrading of systems had made expansion more practical. Privately, however, some of the banks admit that their

earlier opposition may have been rather short-sighted. Perhaps some of the fears that big fund managers might side-step the custodian banks have faded, or perhaps the debate has anyway moved on.

This has been a complicated area because some of the big investment management operations have in any case been part of large bank-owned groups, and through in-house custodians have had indirect access to Swift. But no more than about 3 per cent of Swift transactions are thought to have been related to securities deals, and new formats might have had to be developed to suit the requirements of investment institutions.

The position now is that some of the big non-bank investment institutions are considering Swift and are likely to join, but there is no lengthy queue at the admissions office.

"We will evaluate Swift fully," says Mr Chris Smith, who is in charge of the middle office at Fidelity in London. "You need to go into it with your eyes open. It's not a panacea."

Mr Jonathan Rashleigh at L&G is also considering Swift. "We are certainly quite

attracted to the prospect," he says. "My bet is that a number of the larger players will join, but it is not going to be a landslide."

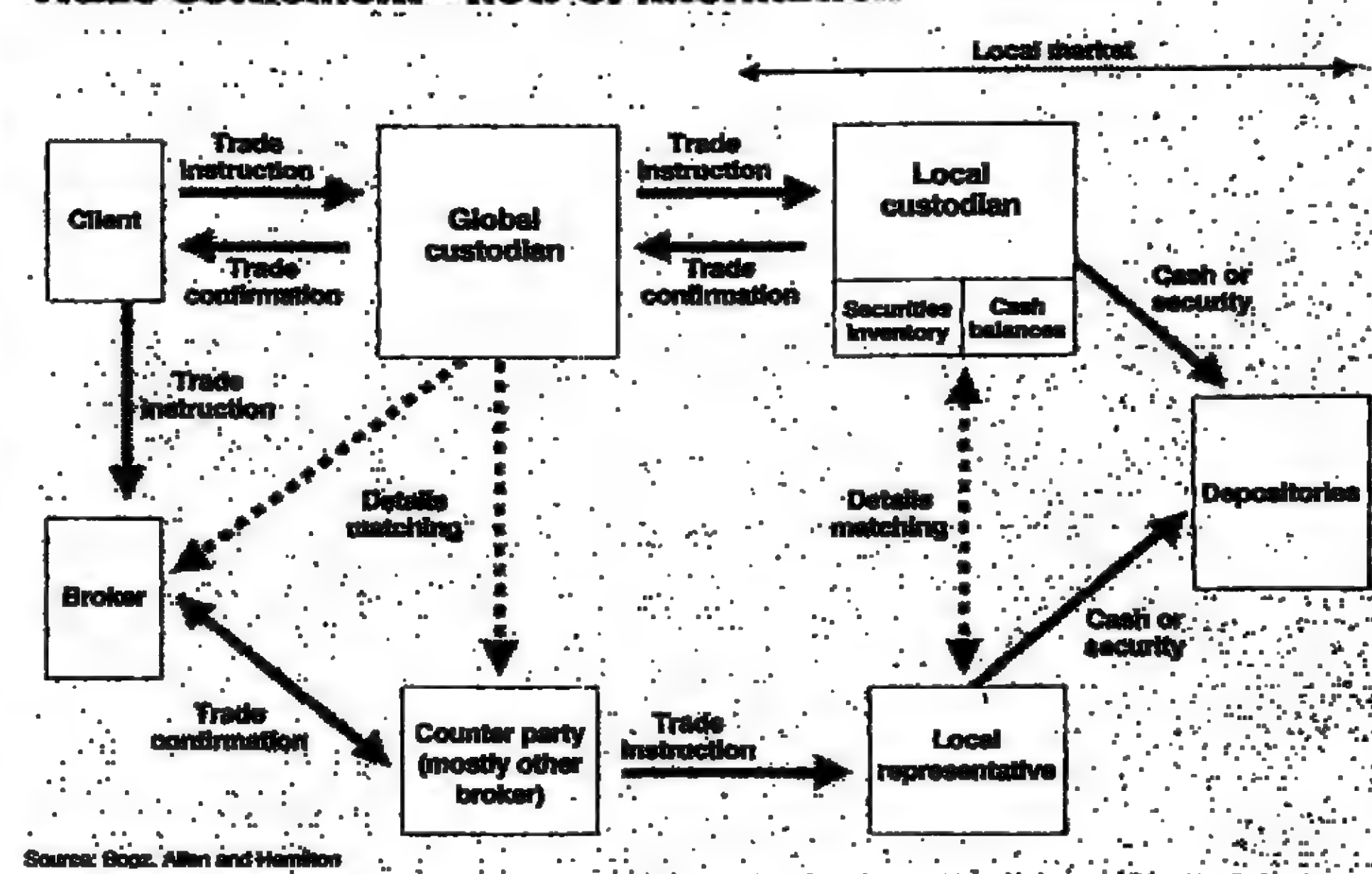
The question is whether many institutions will think it is worth stumping up the substantial cost of joining Swift when cheaper trade confirmation alternatives are becoming available. They will need to see a substantial scope for using Swift to communicate with their custodian banks rather than with their brokers.

Meanwhile the ETC systems are all but ready, and will be good enough for the requirements of many of the smaller and medium-sized investment managers.

Some argue that if fund management houses had been given access to Swift earlier and could have used it for confirming international securities transactions other systems might not have been required.

Essentially the problem has been in coping with inefficiencies in overseas securities transactions. These are more difficult to handle than domestic trades, information on which is sent out by the London Stock Exchange by computer every night, so that any mismatches can be spotted

Trade settlement - flow of information



THE complex flow of information that has to take place before a securities trade can be completed is becoming increasingly automated. Many of the messages, such as those to local custodians or to representatives in local markets, are carried on Swift, the interbank messaging system.

next morning.

However, when it comes to cross-border transactions a significant percentage go wrong,

and up to 10 per cent may not settle on the normal day. This can in itself be expensive. In addition the whole process is

being given momentum by the pressure from the Group of 30 which is trying to push stock exchanges around the world to

adopt a three-day settlement standard.

In the case of trade confirmation fund managers still have to cope with archaic methods such as telexes, faxes or letters, which introduce delays of 24 hours or more. Along with delays go increased risks of losses from failed transactions because misunderstandings and errors are not picked up quickly.

Therefore strong pressures have developed for the introduction of compatible systems which can achieve instant electronic information transfer using standard formats. In practice the new ETC networks should be capable of providing trade confirmation within minutes of the order being placed.

Mr Sean Quinn of Chase in London argues that the new electronic communications will substantially improve efficiency. "At present there can be quite a lot of toing and froing before we get our instructions," he says. "We have to wait until investors and banks have agreed their transactions."

At S.G. Warburg Mr Gordon Lindsay, managing director of custody, takes a similar view. "These developments will help to automate the process and eventually allow us to reduce staff levels slightly," he says.

As for Swift, meanwhile, the bankers in their club may be able to relax in the knowledge that many of the fund managers will not be filling in their membership forms after all.

The key to security.

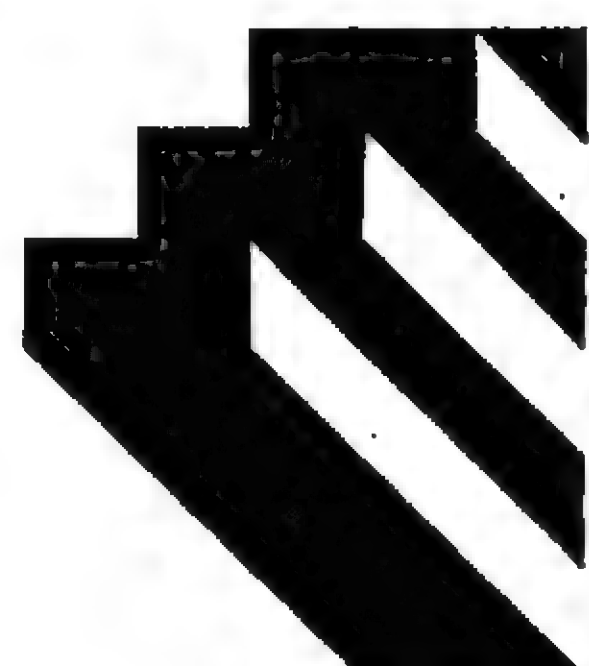


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Norma Cohen investigates how custodians generate revenue

Figuring out hidden fees

CUSTODIANS do not enjoy talking about how they generate revenues and are circumspect when asked to give details of fees charged. But it is clear that to survive, global custodians must find ways of earning fees in addition to those paid directly by clients.

Indeed, a recent study of the global custody business by management consultants Booz Allen, concluded that 50 to 60 per cent of custodians' revenues come from the fees they charge clients. An additional 20 to 30 per cent come from net interest income on client balances and 10 to 20 per cent from foreign exchange trading and other transactions.

How custodial banks are able to do this is worth examining, particularly by UK and European clients who tend to rely on relationship banking and do not shop around for the best deal like their US counterparts.

First, foreign exchange transactions offer many excellent opportunities for banks to earn extra revenue. For example, a US pension fund as a customer wishing to purchase securities on the Frankfurt Stock Exchange has to transmit cash through its global custodian to a sub-custodian who then purchases D-Marks. Some custodians, such as Barclays, execute all foreign exchange orders through their own dealing systems, although Barclays says it always seeks the best dealing rate. Still, the bank will earn a turn on the dealing spread between the bid and the offered rate, helping to cut its overall costs.

In minor currencies, particularly those in emerging markets, obtaining interest on foreign currency accounts can cause problems and only the most insistent clients are likely to get the best rates. Mr Jeremy Paulson-Ellis, chairman of Genesis Fund Management which specialises in emerging markets, says his agreements with custodians allow him to deal away from them when the rates are not the best on offer. While awaiting settlement, the cash will sit in an account. If the client is not careful, interest may not accrue or it may not accrue at a commercial rate. The custodian bank, however, may earn a turn by putting that cash into the money markets unless the client agreement specifically offers cash on all balances.

Finally, there is what is known as "fall float". This occurs when bargains are struck but for one reason or another, the stock is not delivered and the cash is not paid. According to an executive at one leading US global custodian, most clients pay funds from the official settlement date, not the actual. In particularly inefficient markets, banks may have free use of client funds for days, even weeks, and the client earns no return.

Indeed, says Mr Richard Foster, a partner in Booz Allen, a smoothly running clearing, settlement and payments system is not necessarily profitable for banks. "Thirty per cent of reve-

Fee income contribution for the Salomon Brothers 50-bank index (\$m)*				
Company	Fee income as percentage of average total assets		Fee income as percentage of total revenues	
	1990	1991	1990	1991
Bank of New York	1.73%	2.08%	36.26%	36.31%
Bankers Trust NY	2.00	2.04	40.35	37.80
Chase Manhattan	1.89	1.85	33.50	33.25
Chemical Banking Corp	1.54	1.46	34.83	29.48
Citicorp	2.77	2.70	43.84	40.51
J.P. Morgan & Co	0.92	1.06	27.79	27.45
Republic NY Corp	0.55	0.63	22.13	18.47
Bank of Boston Corp	1.81	1.88	36.26	37.24
First Chicago	1.94	1.98	41.82	44.50
Continental Bank Corp	1.28	1.05	35.51	39.96
Money centre total	1.98	1.88	36.21	35.90
First/Norstar	2.27	2.29	38.91	34.85
KeyCorp	1.26	1.38	22.58	24.46
First Fidelity Corp	1.11	1.15	23.13	22.02
CoreStates Financial	1.78	2.50	27.19	34.09
PNC Financial Corp	1.41	1.89	30.83	31.42
Banc One Corp	2.39	2.49	33.53	31.47
National City Corp	2.15	2.35	34.13	35.65
NBD Bancorp	1.05	1.11	21.94	22.21
First Bank System	1.81	1.81	31.44	30.84
Norwest Corp	2.50	2.83	36.27	35.89
NationsBank	1.37	1.44	26.66	27.10
First Union Corp	1.38	1.75	27.31	28.82
SunTrust Banks	1.76	1.80	28.58	29.08
Wachovia Corp	1.47	1.50	27.32	27.14
BankAmerica Corp	1.72	1.90	29.83	29.74
First Interstate	2.11	2.18	32.05	32.07
Security Pacific	1.88	2.38	33.68	41.14
Wells Fargo & Co	1.74	1.83	27.40	28.08
Super-regional total	1.71	1.88	36.28	36.88
Mellon Bank Corp	2.67	2.61	46.81	41.05
State Street Boston Corp	4.58	4.91	58.72	62.24
Wilmington Trust Co	2.51	2.55	38.25	37.70
Northern Trust Corp	2.83	3.10	52.09	51.75
Boatmen's Bancshares	1.42	1.52	28.14	28.64
Mercantile Bancorp (St Louis)	1.50	1.53	28.03	27.57
Fifth Third Bancorp	1.97	2.04	32.12	32.06
First of America	1.16	1.21	20.74	21.04
Marshall & Isley Corp	2.58	2.68	38.32	40.99
Old Kent Financial Corp	1.18	1.24	22.27	22.37
Society Corp	1.50	1.40	25.72	22.27
AmSouth Bancorp	1.44	1.61	28.55	28.70
Barnett Banks, Inc	1.35	1.42	24.82	24.88
Greater Financial	1.28	1.55	24.82	28.17
First American Corp	1.85	1.25	32.07	25.40
First Tennessee National	1.55	1.59	25.25	24.04
Signet Banking Corp	1.47	2.03	27.05	30.68
First Security Corp	1.34	1.48	24.48	25.72
US Bancorp	1.68	1.68	28.57	30.05
Valley National	1.71	2.02	27.74	30.32
West One Bancorp	1.32	1.37	24.88	24.98
Bancorp Hawaii	0.85	0.78	17.83	16.83
Regional bank total	1.62	1.53	32.11	31.88
50-bank total	1.79	1.89	33.81	32.97

* Fee income excludes trading income and securities gains

Source: Company reports and Salomon Brothers Inc calculations

of commercial banks come from interest income. They do not have an interest in seeking more efficient cash management."

For some custodians, particularly the investment banks which have a large stockbroking and market-making operation, the driving force for entering the global custody business is stock lending, said Mr Foster. Having the securities in-house in their custody department guarantees them ready access to securities needed for delivery to their own clients on the stockbroking side. And, while clients receive typically a fee equal to half a per cent of the value of the transaction, returns to the custodian can be far greater.

For the investment banks, it is securities lending that is driving them into the custody business," Mr Foster said. Some custodians admit that stock lending is a significant source of revenue. One US bank described an agreement with a public pension fund client with more than \$50n under management. As long as the

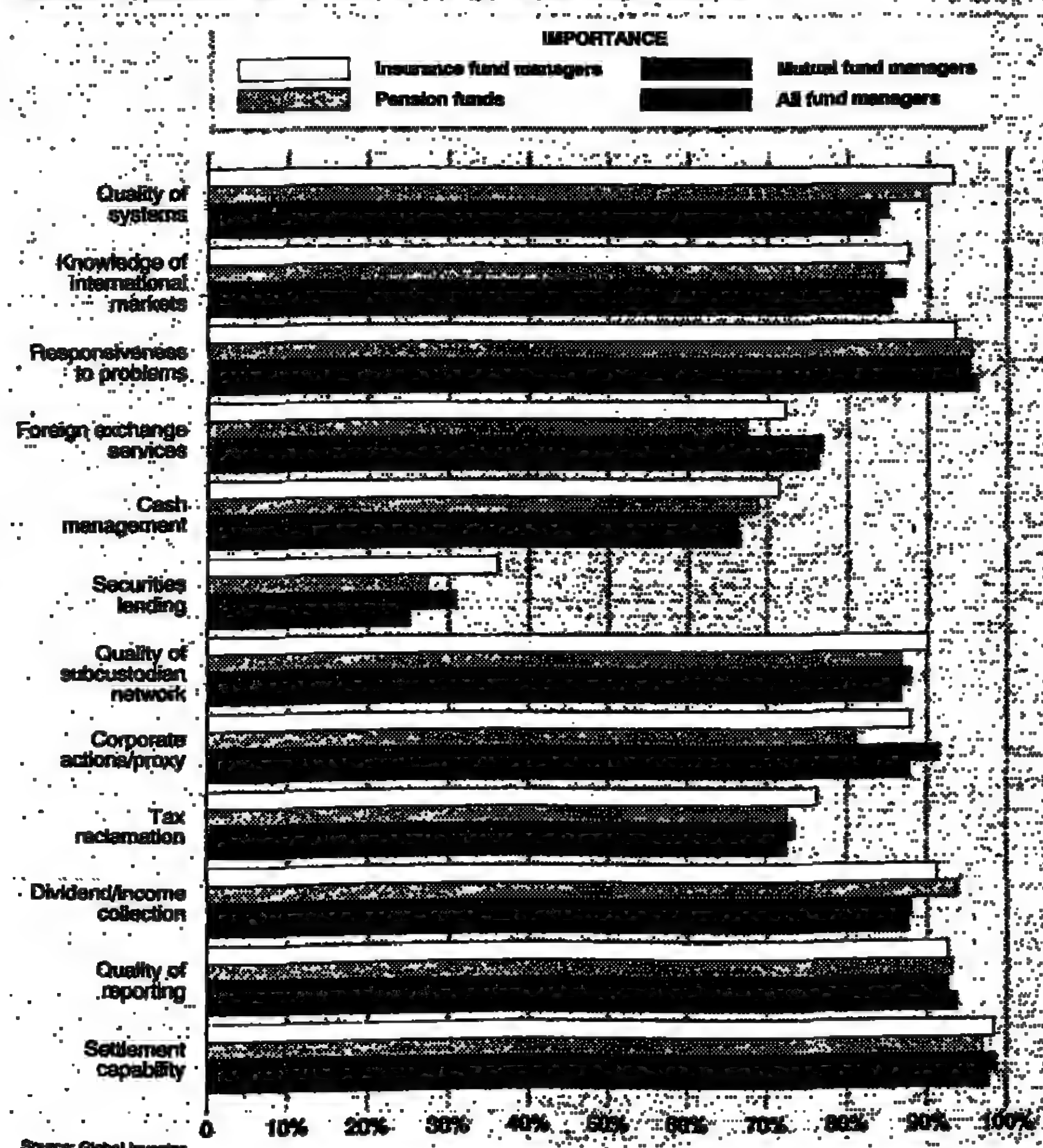
bank is allowed to lend the client's stock, the custodial service is free. When stock lending dries up, the fee rises to \$400,000 to \$500,000 a year.

Mr John Morris, head of European investor services at Citibank, said his organisation favours the use of a simple tariff with two elements: one is a per-transaction charge and the other is one based on the value of the portfolio and covers all transactions in a given period. However, Mr Morris concedes that some customer anxieties about the lack of fee transparency do have some basis. "Sometimes fees are difficult to track and charges from sub-custodians are passed on to the customer," he said. It may not be clear to clients exactly how much they are being charged for each transaction or whether the fee they are charged bears any relation to the sub-custodians' cost.

Mr Michael Roberts, managing director at Fleming Investment Management, said he prefers an arrangement known as "contractual settlement" in which the client pays for secu-

rities bought and receives cash for securities sold on the day of contract. If the counterparty fails to hold up the other end of the bargain, the custodian either must lend the cash to the client or is allowed to receive the benefit of unused cash.

What clients look for in a global custodian



ALTHOUGH global custodians have diversified, it is still the ability to settle trades in a timely fashion which clients rate as the most significant aspect of the business. More than 90 per cent of all types of fund managers rank the provision of basic settlement services as crucial to their choice of custodian. Also, the quality

of information systems and responsiveness to clients rank high.

Significantly, securities lending, perhaps the most attractive aspect of the global custody business for some of the new entrants, is still a relatively insignificant service. Fewer than 30 per cent of all clients find it of any importance at all.

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David Lane on Monte Titoli's successful formula

User satisfaction

ITALY'S Monte Titoli ranks high among the world's most efficient custodians. "We are very happy with Monte Titoli's service. No problems, and no real complaints," says Paolo Azzoni, of Milan securities intermediation company, Gamba Azzoni Sim.

A similar view comes from Renzo Noris, who heads the securities service at Banca Commerciale Italiana (BCI). "Monte Titoli has proved a great benefit to banks. BCI used to have securities custody at 150 branches. But the cost was very high, in terms of space, staff and physical security. We have obtained significant savings."

Paolo Basilico, of Milan's Clubberia Warburg Sim, says: "Monte Titoli works smoothly and efficiently." He adds that centralised securities custody greatly assists his company's work, and also keeps costs down. "Though Monte Titoli could be less expensive, we incurred even greater costs before, particularly with items like insurance premiums and delivery."

This seeming paragon was established in February 1978, and became operational four years later. Monte Titoli encountered difficulties at the beginning, however, and growth was held back in early years. It was only after enactment of Law 289 in June 1986, which clarified the *giuridical* (legal) position of securities custody, that the organisation was able to start developing its full potential.

The 1986 law defines Monte

Titoli, a joint stock corporation, as an institution for the centralised custody and administration of securities. Its sole objective is the provision of services aimed at rationalising securities custody and negotiation.

Shareholdings in Monte Titoli are limited to a small number of permitted categories: banks, active stockbrokers, securities intermediary companies and similar organisations abroad, on the basis of reciprocity. New articles of association, approved in July, restrict the total stake held by stockbrokers to 12.5 per cent of share capital, while the limit for foreign organisations and securities intermediation companies is a total of 10 per cent for each category.

Theoretically, there could be competition, but not in practice

No single shareholding must exceed 7 per cent, with one exception: the Bank of Italy, on which no limits are placed. Indeed, the central bank has a 42.3 per cent stake in Monte Titoli's L16bn (\$11.7m) share capital, and the company's results are shown in the Bank of Italy's own financial statements.

Should shares or options in new issues not be taken up, shareholders may offer them only to the Bank of Italy. That it has a central role in Monte Titoli is further underlined by its statutory right to appoint a

member of the board of directors.

Clearly, Italy's centralised securities custody organisation is more than an ordinary joint stock corporation. "Recognition by specific legislation as a service of public utility gives Monte Titoli a special standing," says general manager Dino Abbrescia.

"Theoretically, there could be competition, but not in practice," notes Mr Abbrescia. Monte Titoli's official status has brought strong support from state bodies such as its main shareholder and the companies and stock market commission Consob, and has resulted in an impregnable market position. "No new-comer could compete on cost, and it would not be able to find business."

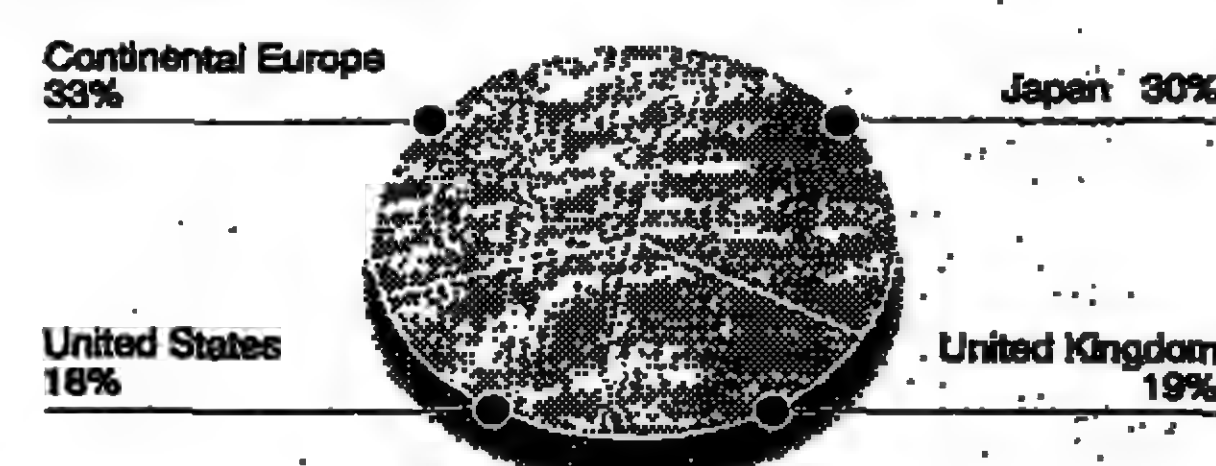
Mr Abbrescia says that, given the practice of majority shareholders and members of control syndicates to hold their shares, the quantity of registered shares and similar securities that are deposited with the organisation is about 92 per cent of those that could be realistically centralised. Statistics show that, based on nominal value, 38 per cent of registered shares and similar instruments were held by Monte Titoli at the end of last year.

In the case of bearer shares and similar securities, 68 per cent of the total nominal value was deposited with Monte Titoli, while the figure for bonds was 83 per cent. Significant progress has been made for both; figures at the end of

GLOBAL CUSTODY 8

Principal markets' cross-border assets

1990 total: \$1,200 billion



Source: BA & P per Bank Survey

1990 were 58 per cent and 74 per cent respectively.

Monte Titoli's service is voluntary. In that owners of securities are not obliged to deposit them, Italy's system permits those who want to hold their securities to do so. Indeed, last year the number of operations of certificate withdrawal from Monte Titoli rose, from 3,500 to 13,000 in the case of shares and from 1,600 to 3,800 in the case of bonds.

However, in favour of paperless work, there was a significant increase from 260 to 286 in the number of securities issuing bodies and companies that registered with Monte Titoli last year. At the same time the number of securities admitted to custody rose from 947 to 945. Mr Abbrescia notes that this was due principally to a ruling by Consob which compelled the reticent to come into line.

Statistics for the face value of securities held by Monte Titoli at year-end show rapid growth. Ten years ago, Italy's centralised custody organisation held securities with a face value of L706bn. By 1987 the figure had risen to L46,516bn, and at the end of last year it was L97,668bn. It now totals more than L100,000bn.

The increase in the number of Monte Titoli's users has

been such that often there are no physical exchanges in the daily settlement of transactions in the Bank of Italy's settlement rooms. From 460 at the end of 1980, the number of users (banks, stockbrokers, securities intermediation companies, commission houses and issuers) increased to 460 at the end of last year and passed the 500 mark early this year.

However, Monte Titoli is more than a custody service. It administers the securities it holds, dealing with rights issues and dividend payments. "Rights issues highlight the benefits that Monte Titoli offers the system," says Mr Basilico. "In the past these operations created considerable difficulties for the banks. Monte Titoli manages easily, as the recent RAS issue showed."

Payment of dividends is another service handled. Last year this concerned 15.1bn registered and bearer securities for a total net dividend value of L1,731bn. The figures in 1990 were 14.1bn securities and L2,177bn.

The addition of securities quoted on Italy's USM will provide new volumes, and so also will Italy's privatisation process which will bring some new names to the main board.

Decade of achievement

NEXT year Dino Abbrescia will celebrate 10 years at Monte Titoli, Italy's centralised securities custody organisation. He joined soon after operations began, and has enjoyed a busy decade, helping Monte Titoli settle down into a smooth routine.

Mr Abbrescia, a 57-year-old Milanese, had filled a knapsack full of experience in securities trading and treasury operations at Monte dei Paschi di Siena and the Istituto Centrale Banche e Bancheieri before taking up the challenge at Monte Titoli, where he is general manager.

"There were real headaches at the beginning. Serious *giuridical* (legal) issues had to be resolved and enormous user resistance overcome," says Mr Abbrescia. "Eventually, legislation enacted in 1986 settled interpretive differences about Monte Titoli's corporate nature. It is a service operation not a fiduciary company."

While unpicking the knots of Monte Titoli's legal status, Mr Abbrescia was also trying to encourage participation by securities issuers and dealers. "It needed an exhaustive and exhausting propaganda cam-

paign of seminars, conferences, debates and meetings to convince potential users to switch to this unknown service."

Mr Abbrescia notes that when he started at Monte Titoli only 40 securities issuers used the service. Now there are nearly 300. "A lot of credit should be given to Fiat and Pirelli who were early, strong supporters," he says.

Equally important in the struggle to win acceptance for Monte Titoli was the Bank of Italy, an institution well-known for its powers of moral persuasion. It firmly encouraged Italy's banks to transfer their securities custody activities to Monte Titoli.

"Fewer than 50 banks were users of Monte Titoli 10 years ago; today there are nearly 200. Their reluctance was understandable. Not only were our services unknown, but banks also faced the need to review their internal procedures and modify their data processing in order to switch to us," explains Mr Abbrescia.

Concern about costs also played a part in deterring brokers and banks from using Monte Titoli. "Small brokerage firms particularly were worried

that the costs would weigh excessively on their operations, and affect relations with clients. But the charges made by Monte Titoli have been much lower than the costs that users would otherwise have incurred," claims Mr Abbrescia.

Monte Titoli's general manager says that, while all the principal problems of centralised securities custody in Italy have been resolved, new factors will always appear and changes in markets will call for modifications to the service. For some changes, Monte Titoli is already prepared. "If cash settlement were to be introduced today we could handle it tomorrow."

This raises memories of the mid-1980s, when settlement of Italian securities transactions seemed an unreachable goal for many foreign investors. "Such complaints are not made today," says Mr Abbrescia, noting that cross-border transactions are an issue under study. Maintaining regular contact with counterparts abroad, he would quickly be aware if matters were going wrong.

David Lane

Alan Cane discusses information technology

Tailor-made systems

INFORMATION technology makes modern global custody services possible at an economic price. Without efficient data transmission, processing and electronic document interchange to keep track of share certificates and dividend payments and to ensure that currencies are translated accurately, global custodians would be forced to rely on telex and manual processing, time-consuming, costly and prone to errors.

Against this must be set the substantial investment in computers and computer software which serious players have to make. Software packages running on personal computers may cost tens of thousands of dollars but for a large system running on a mainframe computer, the base price is several million dollars. Banks writing their own bespoke software will be able to create systems tailored to their exact needs and such developments are never cheap.

Lloyds Bank in the UK, for example, is one of those developing its own system; it is using ACT's Quasar investment management package as the basis for its development. It will say little about the functions its system will support or about its progress, arguing that other custodians could gain useful insights from such information. Its reluctance to give anything away speaks volumes for the level of competition in the market today.

The development of computer systems for global custody is following the pattern established for most financial software over the past three decades. In the beginning, banks developed their own systems either on their own or with the assistance of a software house. Some of these developments proved robust

and flexible enough to be packaged and sold to other institutions.

Now a new generation of products is emerging based on "open systems" principles. Open software obeys industry standards, enabling it to run on a wide range of standard hardware; a typical advantage in open systems software is the graphical user interface (gui); computer operations are indicated on the screen by small pictures rather than by text.

There are also developments in ways of connecting customers to their custodians which are reminiscent of the vogue for treasurer's workstations a decade ago. There are three basic approaches. The simplest is a dumb terminal which can be connected through a dial-up link to the custodian's computer. This allows portfolio inspection, but not much more.

The next stage is to download data from the custodian's system to the customer's personal computer; this makes possible more elaborate reports and instructions to be transmitted. The final sophistication is a direct computer-to-computer connection which essentially gives the customer privileged access direct to the custodian's computer system. Typically, the customer will use a personal computer or workstation; this makes the process of interaction that much easier.

The trend among global custodians is towards packaged software rather than systems written in-house, reflecting both costs and the flexibility which can be built into packages through modular and parameter-driven construction. There are now some 40 packages which run on specific manufacturers' hardware and almost as many open systems offerings.

The leading proprietary packages include VSPS, developed by Vista Concepts of the US, Omni GS from Dyratton, Fundmaster from BIS and Paladign, written by Clarke and Tilley in the UK.

Leading open systems packages include GSM also from the Dyratton stable, Synopsis from RIMS and Belvedere GPS, developed by Belvedere Europe.

VSPS from Vista Concepts is the market leader in top-of-the-line systems. It costs typically from \$1m to \$10m. It is an on-line system offering multi-currency, multilingual real-time processing. Data need only be entered once. It deals with clearing, settlement and customer reporting. Newer features include provisions for handling a variety of new financial instruments together with advanced portfolio reports and money management.

But a principal advantage, according to Vista Concepts' founder Bill Potter, is its flexibility. It can be modified to suit individual customers' needs. For this reason, it has been chosen as the basis of Taurus, the London Stock Exchange's much delayed settlement system. According to Mr Potter, the Vista Concepts' team is on time with its share of the development work.

VSPS grew out of a project commissioned by the Banque National de Paris; now it is used by Citibank and Chase Manhattan in the US and Midland Bank in the UK.

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FINANCIAL TIMES COMPANIES & MARKETS

Wednesday December 9 1992

TRUCK OF THE YEAR
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INSIDE

Saudi prince backs Circle K scheme

A Saudi prince yesterday emerged as the potential backer of one of three reorganisation schemes being put forward for Circle K, the bankrupt US convenience store chain. Commonwealth Oil Refining Company of Arlington, Texas, says Prince Turki bin Fahd bin Jalawi Al Saud has made a "firm written commitment" to contribute \$360m of equity capital towards its reorganisation plan for Circle K. Page 17

Still shouting in Chicago



Computer trading may be where the future lies for financial markets in general, but North America's largest futures exchanges are all planning to expand their trading floors in 1993, sticking loyalty with the open outcry system. The Chicago Board of Trade, the world's largest futures exchange, joined the expansion boom this month with a proposal to build a \$150m trading facility. Page 17

Private train flops in Paris

A driverless train connecting Paris's Orly airport with the nearest suburban rail line has flopped here more than a year after starting up. The line, built for FF1.75bn (\$327m) by Matra, the transport to defence electronics group, was Paris's first experiment with privately run public transport. It is to go into voluntary liquidation and be taken over by RATP, the state-owned Parisian public transport board. Page 18

Shipbuilders face bright future

European shipbuilders have been hit hard this year by a weak dollar, falling tanker rates and volatility in European financial markets. Kvaerner, Europe's largest shipbuilder and the fifth-largest in the world, has seen its free shares slip from a year's high of Nkr229 in January to a low of Nkr117 in early September. Analysts believe the group is in a good position to benefit from an expected turnaround in the sector. Back Page

Gummer tries to calm Caribbean

Mr John Gummer, Britain's farm minister, made a trip through the Caribbean at the weekend to mollify concern over proposals by the UK for the marketing of bananas when the single European market is created next month. In the wake of Mr Gummer's visit, in which he met representatives of the Belize, Jamaica and Windward Islands banana industries in separate meetings over two days, reaction was mixed. Page 22

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Chief price changes yesterday

FRANKFURT (DM)	PARIS (FF)
Aachen Mch	810 + 122
Aldi	705 + 10
Alcatel	17 + 3
Deutsche Bk	653.1 - 13.9
Holmann Ph	821 - 11
Kaibach	402.2 - 13.3
Lehman	584.5 - 12.5
NEW YORK (\$)	
Daimler	30 1/2 + 1 1/2
Gen Motors	34 1/2 + 1 1/2
Intel	44 + 1 1/2
Phelps	34 1/2 + 1 1/2
Boeing	34 1/2 + 1 1/2
IBM	30 + 1 1/2
Times Mirror	30 + 1 1/2

London (Pence)

Alcatel	103 + 7	Tudor Tech	113 + 28
BCC	300 + 13	Vaux	218 + 8
Chapell & Am	10 1/2 + 3	Phelps	92 - 4
Emess	18 + 1	Chilim Radio	447 - 9
Enso	18 + 1	Swire	1010 - 8
GUS A	188 + 21	ICI	154 - 8
Legal & Gen	423 + 14	Lesmo	154 - 8
Phelps	83 + 3	Ossory Ests	4 - 2
Sage	455 + 21	Sturges	7 - 2
Sell	394 + 7	TI Group	256 - 7

Alitalia set to buy 35% of Malev

By Nicholas Denton in Budapest

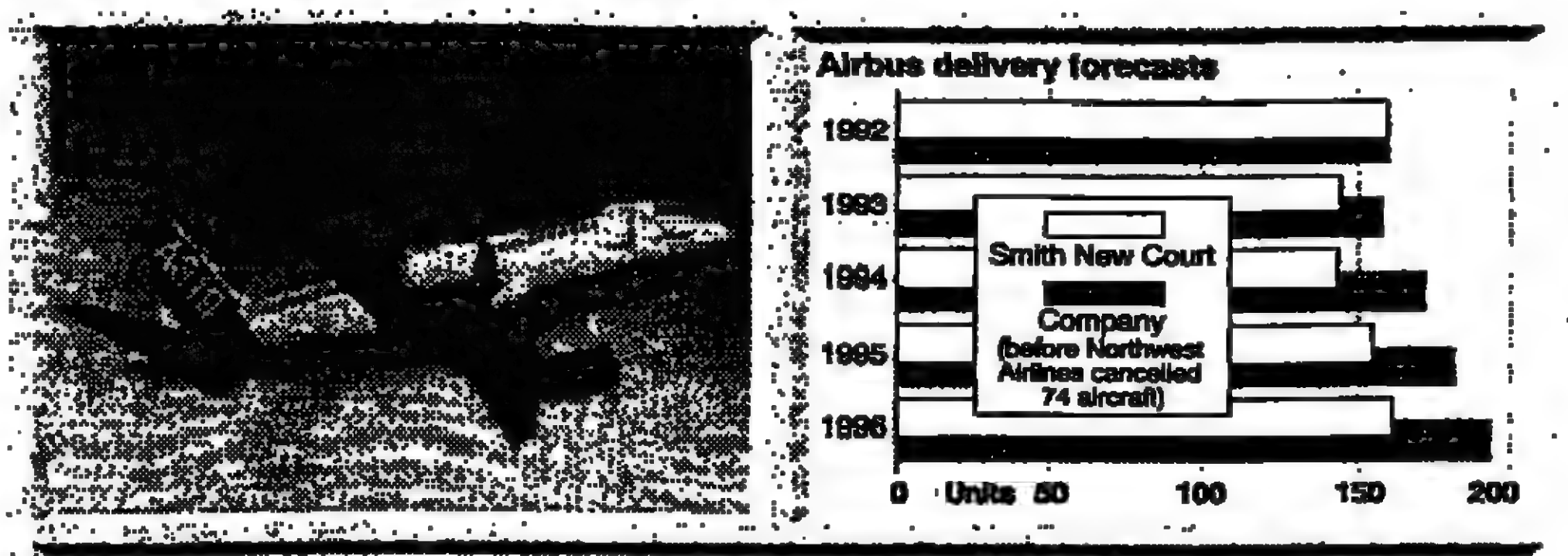
HUNGARIAN government officials indicated yesterday that Alitalia, the Italian state airline, was poised to acquire a minority stake in Malev, the Hungarian carrier, against stiff competition from Lufthansa of Germany. A formal announcement of the sale is expected next week, although some observers have not excluded the possibility of a last-minute push by Lufthansa, which has been keen to extend its growing east European coverage by forging a partnership with Hungary's flag carrier. Officials in Budapest said the winning bidder will take a shareholding of around 35 per cent in Malev, at a cost of more than \$60m. An Air France-led consortium earlier this year paid \$60m for 40 per cent of CSA, the Czechoslovak carrier. Negotiations on the Malev deal have been taking place for some time. However, the airline indicated a solution was imminent by announcing last week that it would hold a shareholders' meeting on January 8 to approve a capital increase linked to its privatisation. If Alitalia emerges as the successful bidder, it will have overcome opposition from influential officials within the Budapest government, who felt that a link-up with Lufthansa would have provided a more secure future for the Hungarian carrier. Malev, which is seen as one of the better-managed and more efficient of the former Communist-dominated east European airlines, has been seeking a European partner to help it compete on new international services linking western airports. In May, British Airways, Lufthansa and KLM Royal Dutch Airlines were identified as leading contenders. British Airways said it was not seriously interested, and KLM later announced it was dropping out of the bidding. The success of Alitalia's bid appears to have been based on superior financial terms to Lufthansa's proposal. Although smaller than the German airline, Alitalia has been striving to improve quality and profitability in recent years. The deal would mark its first equity stake in a foreign airline. Malev's pre-tax profits rose 57 per cent in 1991 to Ft3.09bn (\$25m), in spite of the worldwide recession in the airline business. It needs capital to replace its largely Soviet-made fleet with more modern western aircraft.

Tending to Airbus's clipped wings

Paul Betts on the likely damage caused by Northwest's cancelled order

The European Airbus consortium has just suffered its worst setback in its 20-year history with the largest cancellation of new aircraft orders from its single biggest customer. The decision of Northwest Airlines of the US to cancel orders for 74 Airbus aircraft worth \$3.5bn was said yesterday to have come as a "bombshell" by one London aerospace analyst. Northwest, with 140 Airbus aircraft orders of which 34 have already been delivered, was the largest customer of Airbus, GFA, the Irish leasing company has 123 orders, Lufthansa of Germany, 111 orders and Air France has 87 orders.

Airbus orders and deliveries



Aircraft	Number of engines	Typical seating	Deliveries from current	Orders
A300-600	2	228	current	87
A310-300	2	228	current	38
A319	2	124	1995	0
A320	2	150	current	310
A321	2	186	1st qtr 1994	144
A330	2	335	4th qtr 1993	143
A340	4	283-295	1st qtr 1993	103

kinson, of the Shearson Lehman investment group, said yesterday he did not expect a general recovery in the rate of aircraft production until 1996.

The industry is still suffering from overcapacity. During the past two years, the three main manufacturers - Boeing and McDonnell Douglas in the US and Airbus in Europe - have added

A340, the A330 and the A321 started rolling off the assembly line. Last month, it said it did not expect to produce more than 180 aircraft in 1995. It will now have to trim production targets even further.

This is bound to have a big impact on all four Airbus industrial partners - British Aerospace (20 per cent), Aerospatiale

on jobs," said Mr John Weakley of the Amalgamated Engineering and Electrical Union.

The continuing recession in the airline industry is also likely to delay Airbus plans to develop new products. Airbus had hoped to launch at the end of this year a programme to build a smaller 125-seat derivative of the 150-seat A320 twin-engine aircraft.

Mr Pierson recently said he did not expect the programme to be launched before next March. New airlines in the depressed market are unlikely to commit themselves to buy the new aircraft.

The Northwest cancellation, as well as other order deferrals and cancellations, is likely to force Airbus to make hefty provisions against future aircraft delivery risks when it closes its 1992 accounts in February.

Mr Pierson expects Airbus to show an operating surplus in 1993 for the second year running of around \$200m. But he has also warned that the consortium's net profits would depend on the amount of provisions Airbus will have to make to cover financial risks.

Mr Pierson is convinced the market will eventually rebound, and Airbus will be in a strong position to take advantage of the recovery with its broad family of technologically advanced airliners.

But he recently remarked: "As I surveyed the battered and beaten state of the airline business, I could not help but recall one of Murphy's Laws of Life: 'You can't win... you can't break even... and you can't quit.'"

'This is a bitter blow... we are concerned about the effect the Northwest decision will have on jobs'

about 10 per cent in new passenger seat capacity at a time when airline traffic was slowing. In 1991 airline traffic fell 3 per cent, the first fall since the second world war.

The rate of new aircraft production will have to be cut by 35 per cent to 30 per cent during the next three to four years to bring capacity in line with demand. This will involve a cut in deliveries by the big three manufacturers from more than 800 new aircraft deliveries both in 1991 and 1992 to around 550 annual deliveries during the next four years.

For Airbus, the immediate implication of the Northwest cancellations will be a further scaling back of its production plans. Airbus has already announced a cut in the rate of future production. It had originally expected to see production rise from 160 aircraft this year to 220 aircraft in 1995 as new aircraft including the

of France (37.9 per cent), Deutsche Aerospace (37.9 per cent) and Cassa of Spain (4.3 per cent). BAE, which makes all wings for Airbus aircraft, has already scaled back wing production at its Chester facility to reflect the retrenchment in Airbus output.

The Northwest cancellation alone, according to Mr Hodgkinson, could cost BAE around \$100m (\$180m) in lost turnover as each A320 wing set accounts for about \$2m of turnover and each larger A340 wing set for around \$10m.

The cuts in future production are expected to put additional pressure on jobs in the European aerospace industry. In the UK alone, Airbus supports about 30,000 jobs at some 300 companies, as well as about 7,000 jobs at BAE itself. "This is a bitter blow, coming on top of the massive job losses in aerospace; we are concerned about the effect the Northwest decision will have

Sturge Holdings plans move to corporate capital at Lloyd's

By Richard Lapper in London

STURGE HOLDINGS is planning an insurance venture to take advantage of the possible move towards corporate capital at the Lloyd's of London insurance market.

News of the development emerged yesterday when Sturge, the biggest group of agencies at Lloyd's, reported a 12.5 per cent cut in pre-tax profits to \$7.75m (\$11.7m) for the year to September 30. The dividend was reduced by 50 per cent to 8.5p.

The venture, which would initially have between \$25m and \$50m in capital, could either be a fully-fledged insurance company regulated by the Department of Trade and Industry or a new form of insurance organisation operating under the Lloyd's umbrella.

In either case the venture, backed by outside capital, could reimburse the 24 Lloyd's syndicates managed by Sturge.

Mr Peter Davis, deputy chairman and finance director, said that Sturge had discussed the idea with the DTI and Lloyd's although no final decision had been taken. "It is still some way off," he added.

Sturge was particularly interested in persuading pension fund and other institutional investors to back its venture, said Mr Davis.

Lloyd's is still investigating the practicality of attracting corporate capital to the market in the wake of the recommendations of the Rowland task force earlier this year.

The group's fall in profits was largely due to a cut in profit commission (paid by syndicates to

the agency), reflecting a poor performance in the 1989 underwriting year at Lloyd's, where results are reported three years in arrears.

Profit commissions fell from \$14.08m to \$5.91m and agency fees fell to \$14.58m from \$16.31m. The decline in income was only partially offset by a rise in fees and commissions from other sources to \$3.08m, from \$24.00m, and a better performance by the group's Wise Speke stockbroking subsidiary where profits were up to \$9.64m from \$8.48m.

Cost cutting and tighter management held back expenses growth. Overall turnover of \$33.16m (against \$29.12m) exceeded expenses of \$29.02m (down from \$26.23m) by \$4.14m. Net interest and other income receivable fell to \$3.61m from \$4.99m.

Warburg to lead third BT offer

By Roland Rudd in London

SG WARBURG was yesterday appointed to act as global co-ordinator, financial adviser and lead broker in the UK government's third sale of shares in British Telecommunications.

The government is expected to sell most, if not all, of its 22 per cent BT shareholding, which is worth \$5.4bn at last night's closing price of 401p.

However, ministers are expected to make their final decision on the size of the sale as late as possible to ensure that demand exceeds supply. The BT share sale is part of the government's plans to raise \$5.5bn (\$8.36bn) from privatisation over the coming year and a similar sum in 1994-95. The structure of the last BT sale will be used as a springboard for the

next sale, involving offers to both retail and institutional investors. Retail investors will be offered some inducement to buy shares. Last time they received a 45p discount on the \$50p price paid by institutions.

The Treasury plans to develop last year's use of "share shops" to promote its goal of wider share ownership. Cheap dealing rates were available to investors registering with a share shop in the last sale.

It may increase the number of preferred retailers to issue the third tranche of BT shares. Last year's BT sale involved just eight share shops, which excluded smaller share service companies which specialise in selling shares to the public. A government official said: "We need to work up further our ideas on share shops to improve the way they work."

The role of regional lead managers in Europe may also change. While no decision has yet been taken, the government may feel it unnecessary to appoint formal lead managers throughout continental Europe.

SG Warburg may decide it has sufficient access to the main investors and therefore take a more direct role in selling the shares to big investors. Ministers expect it will be easier to market the shares this time because the regulatory and political environment is more stable. The last sale was dogged by uncertainty before a general election and a price review by OfTel, the regulatory body.

The government has already sold two tranches of shares in BT. The first was in 1984 and the second was last December. Lex, Page 14

Skandia may bid for part of Hafnia

By Christopher Brown-Humes in Stockholm

SKANDIA, the leading Swedish insurance group, has emerged as a potential bidder for the core life and non-life operations of Hafnia, the troubled Danish insurer which suspended payments to creditors in August.

The move would be a significant step towards the group's ambition of achieving a 20 to 25 per cent market share in Scandinavia.

It has a comparatively weak presence in Denmark compared with its operations in Sweden and Norway.

The move also renews the group's interest in Hafnia after its bid to take over the entire group was rebuffed in April.

Mr Bjorn Wolrath, Skandia president, said prices had not been discussed as the group was not yet involved in active negotiations.

Analysts value Hafnia's domestic non-life and life businesses at a minimum of Dkr2bn (\$328m).

The sale of Hafnia's operations is being handled by the US securities house Morgan Stanley. It is understood that two other groups are also interested in Hafnia's Danish operations, including Codan, the Danish insurer which is majority-owned by Sun Alliance of the UK.

Acquiring Hafnia's non-life business would make Skandia the biggest non-life insurer in Denmark, with a 20 per cent market share.

Its life share would increase from 1 per cent to about 10 per cent.

At the same time, the group might acquire Hafnia's 14 per cent Skandia stake, assisting it in its wider ambition of clearing up the uncertainty surrounding its shareholder base.

Some 50 per cent of the group's shares are in the hands of willing sellers, including a 28 per cent stake held by Uni Storebrand group, the Norwegian insurer.

Skandia also said it was discussing the sale of Panfandental, its UK political risk and credit insurance business, with three continental European insurance groups.

The group is currently reshaping its strategy by sharply limiting its exposure to reinsurance and concentrating more heavily on direct non-life and life insurance on the Nordic home market as well as in the UK, US and continental Europe.

This announcement appears as a matter of record only.

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Rival bidders take over Spanish property group

By Peter Bruce in Madrid

A BIDDING war for El Encinar de los Reyes, a medium-sized Spanish property group, ended yesterday when two rival bidders, Banco Bilbao Vizcaya, the large commercial bank, and the Olazabal family which controls El Encinar, agreed to join forces to take over the company.

The groups said they planned to make a bid, worth Pta170bn (\$1.5bn), offering Pta2,900 a share, for the whole of El Encinar. Mr Jaime Olazabal would become president and Mr Santiago Bergareche, president of Metrovacesa, BBV's property arm, would become deputy president.

The fight for control of El Encinar, which owns a former

US Air Force housing base outside Madrid, had split Madrid's investment community since October, when the Olazabals, who control 35 per cent of the target company, launched a formal takeover offer, at Pta2,500 a share, for a further 14 per cent. That would have given them control as El Encinar owns 3 per cent of its own equity as treasury stock.

The BBV, which had built up a stake of 24.9 per cent of El Encinar earlier this year, countered with an unusual promise that it would improve on the Olazabal offer - if shareholders ignored it - after it had expired. It did not say how much it would pay, nor how much it would offer.

The Olazabals increased their offer to Pta2,750 and com-

plained to the courts that the BBV was flouting takeover rules by not bidding directly against it. Challenged to pronounce on the affair, the stock market commission said the BBV had acted correctly.

That ruling has probably established a precedent for other takeover battles in Spain, but the affair has made the authorities uncomfortable and the commission will have been relieved at yesterday's decision to make a joint bid.

El Encinar reported profits last year of Pta198m on assets worth Pta13.3bn. The buyers want to refurbish the former US base housing near Madrid, which has been paying low, controlled rents since the American forces first arrived in Spain in the late 1950s.

Video sales help Carlton to a 15% advance

By Angus Foster in London

CARLTON Communications, the television and film services company, yesterday announced a 15 per cent profit increase, helped by strong sales of video cassettes, especially in the US.

Pre-tax profits rose to £102.3m (\$159.5m) from £88.3m in the year to September 30. Mr Michael Green, chairman, described the performance as "good progress in a tough year".

The results were in line with market expectations, although the shares slipped 2p to 717p on light profit-taking. Analysts expect Carlton, which takes over the London weekday TV franchise from Thames on January 1, to make profits of about £128m this year.

Video and audio production and distribution lifted profits 49.5 per cent to £46.5m. Video cassette production for customers like Walt Disney and Warner grew strongly, in line with the US "sell through" market. Pickwick, the European video and budget music distributor acquired in February, contributed £1m of operating profit on £42m of sales, although this did not include the busy Christmas season.

The television and film services division was affected by high US dollar exchange rates at its Technicolor processing subsidiary. Profits fell to £25.1m from £28.4m.

Video and sound products, which includes specialist production equipment sales to the TV industry, continued to recover and increased profits 39 per cent to £19.4m.

Carlton's net cash balance declined to £108.5m from £163.6m, due to increased working capital needs and investments. Net interest earnings fell to £10.5m from £17.9m. Profits from associates, mainly a 20 per cent stake in Central Independent TV, increased to £6.6m from £2.8m.

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Parisian transport experiment fails

By William Dawkins in Paris

PARIS' first experiment with privately-run public transport flopped yesterday when the backers of Orlyval, a driverless automatic train, admitted they would have to write off FF1bn (\$187m) of debts and hand control of the loss-making line to the state.

The line, built for FF1.75bn by Matra, the transport-defence electronics group, is to go into voluntary liquidation and be taken over and run by RATP, the state-owned Paris public transport board, because it has attracted far

fewer passengers than budgeted.

Orlyval, opened in October 1991, links Orly airport with the nearest suburban rail line and is an important showcase for Matra's *véhicule automatique léger*. It is Matra's second V-run automatic metro in the northern city of Lille.

The private group which owns Orlyval is 34.7 per cent held by a consortium of banks, headed by Banque Indosuez, with 26.7 per cent held by Air Inter, the domestic airline, 18 per cent by Lyonnais des Eaux, the construction and

water distribution group, 17.3 per cent by Matra and 3.3 per cent by the RATP.

An Indosuez spokesman said yesterday that the group owed FF1.58bn to its backers, of which the banks and the other shareholders had agreed to abandon two thirds. Orlyval will be able to pay back FF250m before liquidation, while the RATP is prepared to pay back another FF330m from future operating profits, said the Indosuez official.

Orlyval carries 5,000 passengers per day, or 1.5m annually, well under half the 4m passen-

gers per year its backers were expecting. As a result, it made a FF58.1m loss in its first year. It cut fares and launched a promotional campaign last summer to try to attract more passengers but to no avail.

AXA, the French insurer, said that group profit will be below FF23m in 1993, Reuter reports from Paris.

Last year the group's net group profit fell 28 per cent to FF2.4bn.

The company confirmed remarks made by Mr Claude Bebear, the chairman, that profits would be down from 1991 levels.

Dumez looks for refinancing

By Alice Rawsthorn in Paris

THE downturn in the French construction industry has forced Dumez, the building division of the Lyonnais des Eaux Dumez industrial group, to seek FF460m (\$96m) in refinancing.

Dumez confirmed that it had been forced to ask Lyonnais, its parent company, for FF460m in new capital. It also announced plans to streamline its activities by withdrawing from peripheral businesses and concentrating on its core construction interests.

This rationalisation plan will be accompanied by more than 500 job losses among its 30,000

employees, the first at Dumez for over a century. These cuts are likely to be implemented next March, but a preliminary plan is expected to be presented to the workforce next week.

Dumez has performed poorly since its merger two years ago with Lyonnais des Eaux, one of France's largest industrial concerns.

The Lyonnais group's construction interests produced a loss of FF38m in the first half of this year, thereby depressing the overall increase in group net profits to just 2 per cent to FF711m.

Earlier this year, Mr Jean-Paul Parayre, who headed

Dumez before the merger, was ousted as deputy chairman of Lyonnais.

He has been replaced by Mr Jean-Louis Brault, a Lyonnais director who previously worked for Bouygues, France's biggest building group.

STP, a French bank specialising in building and property, has disclosed losses of FF220m for the first half of the year.

The bank has recently been forced to refinance in a FF1.5bn package. Mr Jacques Bayle, chairman, said it had called a halt to all new property development projects and would be shedding 145 of its 668 employees in an attempt to return to profit.

WestLB continues expansion

By David Waller in Frankfurt

WESTDEUTSCHE Landesbank Girozentrale, the state bank of North-Rhine Westphalia, is expanding its influence in the German public sector banking arena with the acquisition of a stake in Landesbank Rheinland-Pfalz, the state bank of its closest southern neighbour.

WestLB and Südwürttembergische Landesbank (SüdwestLB), its Baden-Württemberg associate, will pay DM750m (\$471.6m) for a 50 per cent stake in the Mainz-based bank. WestLB will own 37.5 per cent and SüdwestLB 12.5 per cent.

The move is part of a complex restructuring of German public sector banking, with WestLB - one of Germany's biggest banks - playing a leading role. It is in negotiations to take control of a majority stake in the Kiel-based Landesbank Schleswig-Holstein, after winning the state government's approval for the move against a rival bid from the Hanover-based Norddeutsche Landesbank, the Landesbank for Lower Saxony.

WestLB, which is expected to report operating profits of about DM1bn this year, takes an active approach to its investment activities. It is believed to have spent DM1.6bn on industrial acquisitions since 1991.

Rodamco loss widens to Fl 405m

By Ronald van de Krol in Amsterdam

RODAMCO, the largest property investment company in the Netherlands, yesterday blamed the decline of sterling and a fall in property valuations for a widening of its net total investment losses to Fl 405m (\$230m) in the first nine months of 1992-93.

Compared with a loss of Fl 68m over the same period of 1991-92, the company, which is part of the Robeco investment group, said that direct investment results - which comprise rental, interest and divi-

dend income and which help determine the dividend to shareholders - rose to Fl 319m in March-November 1992 from Fl 300m a year earlier.

However, indirect results - which include currency movements and property valuations - fell into a loss of Fl 737m from a loss of Fl 386m a year ago.

In local currencies, property values were written down by Fl 433m, slightly less than the Fl 441m write-down seen in the same period of 1991-92. At the beginning of the current fiscal year, Rodamco had property assets of Fl 1.7bn.

In Britain, which accounts for roughly one-fifth of Rodamco's property portfolio, the value of properties was lowered by 16.6 per cent, nearly double the 8.6 per cent rate for continental Europe and well ahead of the 3.5 per cent for North America.

Sterling's depreciation was the main reason why currency movements made a negative Fl 300m contribution to indirect investment results. A year earlier, currency movements had added Fl 49m.

The company said that the 1992-93 dividend was likely to be unchanged.

Two non-executive directors to be appointed to Amstrad board

By Paul Taylor in London

AMSTRAD, the UK consumer electronics group whose shareholders meet tomorrow to decide the fate of Mr Alan Sugar's 30p-a-share buy-out bid, has bowed to pressure from investors and is to appoint two non-executive directors to its board.

Yesterday, as the deadline for receipt of proxies for the group's extraordinary meeting passed, Amstrad acknowledged that Mr Sugar's £113m (\$180m) bid to take the company private again looks "increasingly likely" to be defeated.

In a tacit admission Mr Sugar's proposals have met strong opposition, the company said it has asked Pro Ned, the independent organisation which promotes the role of non-executives, to draw up a shortlist of potential candidates for the Amstrad board.

An advertisement in the Financial Times tomorrow will invite applications. The advertisement says the first applicant "should have sufficiently

senior experience to be able to appraise all financial aspects of the company".

The advertisement says the second applicant, "should be an industrialist with a consumer product manufacturing background, or be highly experienced in the distribution of consumer products to trade customers".

An unusual accompanying statement says that although the advertisement has been placed by Amstrad, "the board wish to demonstrate their independence in the appointment of two non-executive directors," and have therefore entrusted the selection of a short list to Pro Ned.

Mr Sugar, Amstrad's chairman and founder who has a personal 35 per cent stake in the group, promised at the group's annual meeting last month that if his bid failed he would appoint new non-executive directors to the board.

Since Mr Sugar made his buy-back offer, institutional investors in particular have been extremely critical that

there was no "independent voice" on the Amstrad board looking after minority shareholders' interests.

Mr Tim Holland-Bosworth, a director at Kleinwort Benson, Amstrad's financial adviser, acknowledged yesterday that "a number of institutional shareholders had made the point" that they wanted to see non-executive directors back on the six-member Amstrad board. Amstrad had two non-executive directors after it became a public company in 1990, but both have since left.

Institutional investors, led by Prudential and Postel, have cited the lack of non-executive directors and the absence of financial forecasts and other information on Amstrad's prospects, as reasons for opposing the deal.

Amstrad's share price, which dropped 4p to 24p on Monday after it became clear that the buy-back plan faced increasingly strong opposition, gained 1p to close at 25p yesterday.

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December 9, 1992

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and

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NOTICE OF ADJUSTMENTS OF SUBSCRIPTION PRICES

Pursuant to Clause 4 of the instrument dated 9th February, 1989 relating to the 1989 Warrants (the "1989 Instrument"), Clause 4 of the instrument dated 15th March, 1990 relating to the 1990 Warrants (the "1990 Instrument"), Clause 4 of the instrument dated 18th July, 1991 relating to the 1991 Warrants (the "1991 Instrument") and Clause 4 of the instrument dated 23rd July, 1992 (the "1992 Instrument"), notice is hereby given that Mitsubishi Oil Company, Limited has adjusted the Subscription Prices (at which Shares are issuable upon exercise of the 1989, 1990, 1991 and 1992 Warrants) due to the issuance on 3rd December, 1992 of its Swiss Francs 300,000,000 2 1/2 per cent. Notes due 1996 with Warrants, the subscription price of which is less than the current market price per Share (as defined in the 1989, 1990, 1991 and 1992 Instruments). The Subscription Prices for the 1989, 1990, 1991 and 1992 Warrants have been adjusted, in accordance with Condition 7 of the 1989, 1990, 1991 and 1992 Warrants, respectively, from Yen 1,416.70 per Share to Yen 1,416.50 per Share for the 1989 Warrants, from Yen 1,345.00 per Share to Yen 1,344.50 per Share for the 1990 Warrants, from Yen 936.00 per Share to Yen 936.50 per Share for the 1991 Warrants and from Yen 845.00 per Share to Yen 843.90 per Share for the 1992 Warrants. The adjustments of the Subscription Prices took effect as of 3rd December, 1992 for the 1989 and 1990 Warrants and as of 4th December, 1992 for the 1991 and 1992 Warrants.

The Mitsubishi Bank, Limited is Principal Paying Agent on behalf of Mitsubishi Oil Company, Limited

9th December, 1992

Avesta Sheffield

has been formed through the merger of Avesta AB with the stainless steel divisions of British Steel plc.

The undersigned acted as joint financial advisers to Avesta.

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INTERNATIONAL COMPANIES AND CAPITAL MARKETS

Saudi royal steps in on Circle K reorganisation

By Nikki Tait in New York

A SAUDI prince yesterday emerged as the potential backer of one of three reorganisation schemes being put forward for Circle K, the bankrupt US convenience store chain.

Commonwealth Oil Refining Company, an oil company based in Arlington, Texas, said that it had received a "firm written commitment" from Prince Turki bin Fahd bin Jalawi Al Saud to provide \$300m of equity capital towards the financing of a Commonwealth Oil-sponsored plan of reorganisation for Circle K.

Commonwealth, which materialised as a potential investor in Circle K in October, added that it would now file with the bankruptcy court an amended proposed plan of reorganisation for the company.

It claims that this will offer Circle K's senior creditors around \$350m in cash - slightly more than the company's own reorganisation proposal.

Under the amended plan, unsecured creditors would also receive cash, while Commonwealth would emerge as the biggest single shareholder in the reorganised company.

The situation at the bankrupt retailer - which is based

in Phoenix, Arizona, and continues to operate over 3,000 stores - has been mired in controversy for some months.

The company has put forward its own reorganisation plan, which essentially involves selling Circle K for \$399.5m to CK Acquisitions Corp, an international investor group led by Bahrain-based Investcorp.

Investcorp already holds various retail-related interests in the US, including Saks Fifth Avenue, the department store chain.

Circle K bondholders oppose the deal, however, and have put forward their own reorganisation scheme.

Yesterday, Mr Duncan Darrow, a lawyer with Anderson Kill Olick & Oshinsky, which is acting for the bondholders committee, claimed the bondholders were trying to find a way to join in a fully agreed deal and obtain "a reasonable recovery".

He suggested that the Commonwealth plan provided bondholders with a "meaningful recovery", although a spokesman for the law firm added that the bondholders were still pushing their own reorganisation scheme.

There was no immediate response from Circle K to the apparent changes in the Commonwealth plan.

Fatigued carrier files details of its new flight plan

After months of negotiations TWA hopes to be taken off the critical list shortly, writes Nikki Tait

CARL ICAHN, one-time corporate raider and owner of Trans World Airlines, has said he does not want to be remembered as the man who killed the carrier which Howard Hughes built up.

On Monday, as he negotiated the final elements of a restructuring deal with TWA's unions, creditors, and the US federal pensions agency, the New York-born financier went some way to avoiding that epithet.

The proposed reorganisation, which includes a short-term loan to the airline, should take TWA off the critical list this winter.

Whether it moves the carrier - in bankruptcy since January and loss-making - out of the casualty ward in the longer term, is more debatable.

TWA's problems pre-date Mr Icahn's involvement and throughout the early 1980s losses from its troubled domestic routes outweighed profitable international operations.

Indeed, by 1986, when Mr Icahn entered upon the scene in share-punting style and acquired a 47 per cent block of shares, TWA was already under takeover threat.

At this point, however, the unions decided Mr Icahn was the best alternative on offer, and offered him large wage concessions.

This encouraged the financier to negotiate his way to management control.

Mr Icahn's ownership was then cemented in 1988, when TWA was taken private via a leveraged buy-out financed by

Drexel Burnham Lambert, the now-defunct investment bank.

From Mr Icahn's perspective, it was a masterly deal, giving him 50 per cent of the airline's shares and \$450m in cash - more than he paid for his original equity stake.

Unfortunately, the transaction also added hundreds of millions of dollars of debt to TWA's balance sheet.

These heavy borrowings then compounded the difficult operating conditions in the airline industry during the 1990s. TWA suffered an operating loss of \$162.3m in 1990 and another \$353.5m deficit in 1991. Interest charges consumed another \$302.8m and \$379m in the same years.

For a while, the carrier struggled on, thanks to asset sales. Most notably, it sold off its London Heathrow routes to American Airlines in 1991.

Asset sale proceeds of \$681.7m that year allowed it to post a small net profit of \$48.3m. But in early 1992, TWA finally filed for protection from its creditors under Chapter 11 of the US Bankruptcy Code.

Since the bankruptcy filing, pragmatism has been the order of the day, with all parties realising that the carrier could not survive with its existing balance sheet.

Given TWA's ageing fleet and the current glut of aircraft internationally, there was a strong incentive to restructure the carrier and hope the airline industry recovers, rather than simply liquidate remaining assets. Creditors, unions and management have spent the past year negotiating with this aim in mind.



Carl Icahn: likely to lose equity and management role in TWA

The complicating factor has been TWA's pension plans. In the US, unlike the UK, there is a federal agency, the Pension Benefit Guaranty Corporation, which guarantees payment of basic pension benefits.

The PBGC claims the TWA pension plans are underfunded by more than \$1bn and it is not anxious to pick up the bill. Its bargaining counter has been the notion of "joint and several liability" - that is, that Mr Icahn's level of ownership in TWA renders his other (more prosperous) private business interests responsible for minimum funding contributions to the plans.

This extremely important legal nuance seems to have surprised even the wily Mr Icahn.

So who gets and who gives in the reorganisation deal?

● TWA's unions, thoroughly disenchanted with the Icahn management, have offered a 15 per cent wage benefit concession package, estimated to be worth \$600m in savings over a three-year period. In return, they get a 45 per cent equity stake in the reorganised airline when it comes out of bankruptcy.

● Unsecured creditors abandon around \$1bn of claims against the carrier, but get the remaining 55 per cent of the shares. They also receive no cash payments on any reorganisation securities for a three-year period.

● Mr Icahn loses his equity interest in TWA, any

TWA PROFITS (\$m)		
Year	Operating	Net
1988	259.3	248.7
1989	24.3	(266.5)
1990	(102.3)	(237.6)
1991	(353.5)	48.3

After interest and basic sales
Source: company figures

management role, and abandons all claims against the airline, thus cancelling another \$175m of unsecured claims. He, or one of the companies under his control, provides a \$185.3m, two-year loan to the airline, earning 1 per cent over prime rate. This gives the airline the necessary funds to get through the dull winter travel period. Mr Icahn also guarantees a minimum sales price of \$14.7m for Midwest Aviation, a TWA subsidiary.

On the pension front, Mr Icahn will act as "sponsor" to the frozen plans and make annual payments - around \$20m annually for four years - which allow the plans to meet minimum ongoing funding requirements. Mr Icahn can either find these sums from personal contributions or through better than anticipated returns on the pension investments.

Finally, the PBGC gets some funding of the plans made up via a \$300m note issued by TWA, to be secured on its international routes/Kansas City maintenance base.

This note bears interest at 11 per cent over a 15-year period. Mr Icahn then chips in on top. Does this mean that a viable airline has been created?

It is at least preferable to the carrier that went into bankruptcy.

First, the operational results should benefit from the labour concessions and, perhaps, the change in top-level management. The former took effect in October and were accompanied by a general downscaling at the airline.

TWA, for example, streamlined its domestic route structure, cutting out services to about eight cities; it eliminated a handful of international destinations; it reduced the number of operational aircraft; it pruned several thousand jobs and so on.

Second, with lenders set to forgive about two-thirds of the \$1.5bn debt burden, the reorganised airline will carry a much-reduced financial burden.

TWA will also retain a fair number of international routes, notably to continental European destinations, plus its terminal and hub operation at New York's JFK airport. Some analysts still see the international routes as the more attractive side of the business, despite TWA's lack of domestic feed.

On the minus side, the fleet is old, the airline's reputation with the flying public sullied and the viability of the domestic operation has yet to be proved.

"There's a big challenge out there," says Avmark, the aviation consultancy, a fair summary of the general aviation advance towards the carrier's long-term prospects.

Increase in sales helps Heinz advance to \$154m

By Nikki Tait

H. J. HEINZ, the food group based in Pittsburgh, yesterday reported after-tax profits of \$154.2m in the three months to October 28 - the second quarter of its financial year.

The result compares with a \$122.9m in the same period of 1991, and was scored on sales which rose from \$1.59bn to \$1.74bn.

Operating profits improved by 15 per cent, year-on-year, to \$261.5m. At the earnings per share level, the result translates into 60 cents, compared with 46 cents a year ago.

Heinz said that the gains in sales and operating profits were due largely to an overall volume improvement of 7 per cent and to favourable exchange rate movements.

It added that the volume advance had come in all US affiliates and in certain overseas markets, including the UK. "Volume gains were noted in Weight Watchers brand food

products, pet food, tuna, baby food, beans and ketchup," it said.

Mr Tony O'Reilly, chairman, claimed that some of the moves taken by the company in 1991, which included restructuring action designed to cut costs, lay behind the improvement.

"A record number of new products will be introduced this fiscal year with full marketing support," he added.

The company has been the target of criticism recently, with commentators questioning whether it can match its impressive performance during the 1980s, particularly since it is operating in some of the most competitive areas of the food industry.

Yesterday, however, the second-quarter figures helped the shares up 3/4 to \$43 1/2.

After-tax profits for the first six months now stand at \$388m, against \$377.2m a year ago - although the 1991 figure included \$221.4m from the sale of a subsidiary.

Kerkorian faces lawsuits over sale of MGM studio

By Alan Friedman in New York

CREDIT LYONNAIS, the French state bank that controls MGM, the Hollywood studio, has filed a lawsuit seeking \$500m from Mr Kirk Kerkorian, the former MGM owner, and several of his business associates.

MGM has filed a separate suit against Mr Kerkorian and his colleagues, seeking \$750m of damages.

The legal actions, filed in Los Angeles, allege that Mr Kerkorian engaged in a scheme to deceive Credit Lyonnais in order to facilitate his November 1990 sale of MGM to Mr Giancarlo Parretti, the controversial Italian financier who in turn was forced out of the studio last year by Credit Lyonnais.

Mr Kerkorian is accused in the Credit Lyonnais lawsuit of having conspired with Mr Par-

retti to conceal the fact that MGM had insufficient cash flow to finance its operations following the acquisition.

He and his colleagues are accused in the separate MGM action of having breached their fiduciary duties in relation to the cash flow analyses presented in 1990.

Lawyers for Mr Kerkorian turned the accusations "completely unfounded".

● Capital Cities/ABC, the US broadcasting and publishing group, was financially capable of and interested in making a significant acquisition costing as much as \$8bn, Renter reports from New York.

Mr Daniel Burke, chief executive officer, told an investors conference that the company was constantly looking for such a deal, but gave no indication whether a move was imminent.

Deere returns to the black but sees loss in next quarter

By Laurie Morse in Chicago

DEERE, the US farm equipment group, yesterday returned to profit in the fourth quarter and the year to end-October 1992, but forecast a loss for the first quarter of the coming financial year.

The company cited weakness in the worldwide sales.

Fourth-quarter earnings were \$4.2m, or 5 cents per share, compared with last year's loss of \$81.5m, or \$1.07 per share. Worldwide sales were virtually static at \$1.9bn.

For the year, Deere reported a profit of \$74.4m, or 49 cents per share, on sales of \$8.98bn, compared with a loss of \$20.2m, or 27 cents, on sales of \$7.05bn in 1991.

Fourth-quarter results were boosted by a \$20.7m reduction

in inventories. In the same 1991 quarter, the inventory benefit to results was \$65.0m.

Deere's credit, insurance, and health care subsidiaries posted strong sales and profit gains in the quarter. However, its core business of agricultural, industrial and lawn and grounds care equipment suffered.

The company's worldwide equipment operations posted a net loss of \$33.7m in the quarter, compared with a deficit of \$103.2m a year ago, which included a \$120m restructuring charge.

With North American grain production expected to level off in 1993, and farm income projected to be flat, Mr Hans Becherer, chairman, said he expected North American retail sales of farm equip-

ment to remain flat.

European agricultural equipment was expected to continue to decline, he said, because revisions to government agricultural policies would probably lead to reduced farm incomes and crop production in 1993.

"First-quarter 1993 production tonnage is expected to be approximately the same as in last year's depressed initial quarter," Mr Becherer said.

He added that several factories would be closed for one or two week periods, in addition to normal holiday shutdowns.

As a result, he said, Deere expected to incur a loss in the usually weak first quarter. Last year the company recorded a first-quarter loss of \$19.9m.

S African mines in R3.5bn project

By Philip Gawth in Johannesburg

SOUTH AFRICA's two mining giants - Anglo American and Gencor - have confirmed that they will be proceeding with their R3.5bn (\$1.1bn) joint venture stainless steel project.

It is the fourth large capital development to be announced by the two groups in the past two months. Construction of the plant, about 120km east of Johannesburg, will start in January.

The project - an expansion of the existing Columbus plant - is a joint venture between Anglo and Gencor and the Industrial Development Corporation (IDC) who will be equal

one-third equity partners. It exemplifies the trend underway in South Africa to add value to mineral resources rather than export them in raw form.

Columbus has ready access to ferrochrome and nickel, the main ingredients of stainless steel. Not only does South Africa have most of the world's chrome ore reserves, but Columbus will also be able to source all its nickel requirements locally.

The expansion will quadruple South Africa's stainless steel capacity to 500,000 tonnes a year from the existing 125,000 tonnes.

It will turn South Africa into the world's sixth-largest stain-

less steel producing country.

Two factors made the project viable: the acquisition, in September 1991, by an Anglo-Gencor consortium of Middelburg Steel and Alloys (MS&A) plus tax allowances.

Mr Gilbertson declined to elaborate on the returns the project was expected to make.

The project should increase value-added to raw materials by 40 to 50 per cent.

It is expected to earn R15bn in foreign exchange in 1993 terms in the first 25 years of its life.

Present world demand for stainless steel is about 11m tonnes a year, with demand presently increasing at about 3.5 to 5 per cent a year.

Outcry over exchange expansion

CBOT plans to build a \$150m trading facility, writes Laurie Morse

Computer trading may be where the future lies for financial markets in general, but North America's largest futures exchanges are all planning to expand their trading floors in 1993, sticking traditionally to the open outcry system.

The Chicago Board of Trade, the world's largest futures exchange, jumped on the expansion bandwagon this month with a proposal to build a \$150m trading facility immediately south of the exchange on LaSalle Street. The membership will vote on the plan on December 17.

The proposal comes as US financial futures products are under increasingly competitive assault by over-the-counter traders and overseas exchanges. Smaller CBOT member firms which are struggling financially have not received the proposal happily.

The plan, to be financed in part by a four-year increase in trading fees, coincides with a controversial exchange-sponsored study that suggests declining profitability among brokers.

While exchange officials refuse to comment on the study, a Chicago newspaper last week reported that the analysis found that average annual income for the CBOT's soybean futures traders dropped an inflation-adjusted 40 per cent between 1988 and 1991, and that even traders in the exchange's frenzied Treasury bond pit have seen income decline in recent years.

In a letter to members Mr Thomas Donovan, CBOT president, said the data in the newspaper report was preliminary and misleading. However, he failed to quell complaints by independent traders and small brokerage houses that they are losing money as business concentrates in fewer pits and the large investment houses.

The CBOT building project is aimed at relieving overcrowding



Thomas Donovan: failed to quell complaints of lost income

on the exchange's financial futures trading floor. Despite the complaints, exchange volume has risen every year, thanks to the US Treasury bond and note pits, where trading space has long been inadequate. Bond and note brokers work in a stuffy, poorly-lit 19,000 sq ft space first designed for cash grain trading.

A proposal to move the financial futures trade across the hall and into the exchange's 35,000 sq ft state-of-the-art trading floor was blocked by grain and soybean futures traders, who have used the facility since it opened in 1984. In practice, agricultural members control the CBOT's policies, although they generate little more than 20 per cent of exchange volume.

Those same interests may veto the new building plan, although officials say it is essential to the CBOT's growth. While the CBOT and the rival Chicago Mercantile Exchange have invested heavily in Globex, the electronic after-hours trading system, Globex is not expected to replace immediately the trad-

ing floor. Launched in the summer, Globex has been troubled by software bugs and rarely records daily volumes above 3,000 contracts.

"All three exchanges (the CBOT, the CME and the New York Mercantile Exchange) have capacity problems, and one has to be prepared to expand the factory," says Mr Richard Sandor, one of the architects of the first CBOT financial futures contract, and now an executive managing director at Kidder Peabody in New York.

While electronic trading has become popular, particularly in Europe, Mr Sandor says: "These are long-tailed cycles... these things can co-exist side-by-side."

In the first 11 months of 1992, the CBOT traded 140,500 contracts, up 8.5 per cent over the same period in 1991. Of that total, 105,500 were financial futures and options, mostly Treasury bonds and notes.

The CME increased volume by 35.3 per cent over the same period with more than 68m

contracts traded in the over-crowded Eurodollar futures and options pits. The Eurodollar derivatives are growing in excess of 64 per cent per year, thanks mostly to interest rate swap business.

The CME plans to move its Eurodollar and foreign currency futures and options pits to a new trading floor directly above its current floor next summer. It is engaged in a \$26.6m outfitting which will equal the size of the CME's existing 35,000 sq ft floor.

The CME has outgrown its trading space four times in the past 20 years. Mr Jack Sandor, CME chairman, said space on the existing floor freed by the move will be devoted to foreign and domestic stock index futures.

The CME expansion is being financed from existing resources and will not require increased clearing fees.

New York's Nymex has also taken a conservative approach to overcrowding, opting to lease, rather than build. Last month the exchange, which has a growing complex of energy futures products, announced it would move from its shared floor in the World Trade Center to a building in lower Manhattan. Plans for the space, which the Nymex will lease for 15 years, include a 25,000sq ft trading floor.

Nymex received a variety of tax breaks and incentives to take the site and does not expect to have to raise clearing fees to finance the move.

New York's three smaller commodity exchanges, the Coffee, Sugar and Cocoa Exchange, the New York Cotton Exchange and the Commodity Exchange, hope to start on a new building in lower Manhattan in mid-1993.

The exchanges are still negotiating financing on the \$150m project, and expect to remain in the World Trade Center location they share with Nymex throughout next year.

Times Mirror sees difficult year

TIMES Mirror, the US publishing group, expects 1993 to be a difficult year. The group also expects to take special charges against fourth-quarter 1992 earnings, although it declined to detail them, Renter reports from New York.

The company said it expected 1993 first-quarter earnings to be affected by several "serious impediments". Times Mirror's earnings per share in the 1991 first quarter, before a non-recurring gain.

The fourth-quarter charges will include those for restructuring publisher Matthew Bender and adoption of an accounting change on post-retirement benefits.

Prices for electricity determined for the period from 10.00 to 11.00 hours on 9th Dec 1992			
Location	Unit	Price	Unit
150 MW	per MWh	17.22	20.32
300 MW	per MWh	17.22	20.32
450 MW	per MWh	17.22	20.32
600 MW	per MWh	17.22	20.32
750 MW	per MWh	17.22	20.32
900 MW	per MWh	17.22	20.32
1050 MW	per MWh	17.22	20.32
1200 MW	per MWh	17.22	20.32
1350 MW	per MWh	17.22	20.32
1500 MW	per MWh	17.22	20.32
1650 MW	per MWh	17.22	20.32
1800 MW	per MWh	17.22	20.32
1950 MW	per MWh	17.22	20.32
2100 MW	per MWh	17.22	20.32
2250 MW	per MWh	17.22	20.32
2400 MW	per MWh	17.22	20.32
2550 MW	per MWh	17.22	20.32
2700 MW	per MWh	17.22	20.32
2850 MW	per MWh	17.22	20.32
3000 MW	per MWh	17.22	20.32
3150 MW	per MWh	17.22	20.32
3300 MW	per MWh	17.22	20.32
3450 MW	per MWh	17.22	20.32
3600 MW	per MWh	17.22	20.32
3750 MW	per MWh	17.22	20.32
3900 MW	per MWh	17.22	20.32
4050 MW	per MWh	17.22	20.32
4200 MW	per MWh	17.22	20.32
4350 MW	per MWh	17.22	20.32
4500 MW	per MWh	17.22	20.32
4650 MW	per MWh	17.22	20.32
4800 MW	per MWh	17.22	20.32
4950 MW	per MWh	17.22	20.32
5100 MW	per MWh	17.22	20.32
5250 MW	per MWh	17.22	20.32
5400 MW	per MWh	17.22	20.32
5550 MW	per MWh	17.22	20.32
5700 MW	per MWh	17.22	20.32
5850 MW	per MWh	17.22	20.32
6000 MW	per MWh	17.22	20.32
6150 MW	per MWh	17.22	20.32
6300 MW	per MWh	17.22	20.32
6450 MW	per MWh	17.22	20.32
6600 MW	per MWh	17.22	20.32
6750 MW	per MWh	17.22	20.32
6900 MW	per MWh	17.22	20.32
7050 MW	per MWh	17.22	20.32

Treasuries steady in face of sporadic profit-taking

By Patrick Harverson in New York and Sara Webb in London

US TREASURY prices were little changed in light trading yesterday morning as market participants consolidated gains earned in the recent rally.

By midday, the benchmark 30-year government bond was unchanged at 102½ to yield

GOVERNMENT BONDS

7.446 per cent. At the short end of the market, the two-year note was 98½ to yield 7.446 per cent.

In the absence of new economic data, trading was subdued, although there was some sporadic profit-taking.

Prices have risen substantially in the past few days amid hopes that economic growth would be sufficient to dissuade President-elect Bill Clinton from over-stimulating the economy with an aggressive package of fiscal stimuli.

By yesterday, however, analysts felt that these hopes had been properly priced into the

market, which has also already discounted this week's most important economic figures - the data on November producer and consumer prices, and retail sales.

UK government bonds closed higher, with long-dated issues benefitting from the current interest in lengthening trades.

In the cash market, the 9% per cent gilt due 2002 rose from 102½ to 103½ to yield 8.38 per cent as dealers noted some interest in switching into longer-dated issues.

At the short end of the market, the 10 per cent gilt due 1994 gained ½ of a point to end at 104½, yielding 6.87 per cent.

The recent spate of more optimistic economic data has dashed hopes of a cut in the base rate, encouraging interest in lengthening trades, dealers said.

However, volume remained thin, with only about 18,000 futures contracts traded.

MEDIUM and long-dated German government bonds closed higher yesterday, although dealers said that the

BENCHMARK GOVERNMENT BONDS

Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
10.000	10/02	107.9638	+0.135	8.77	8.78	8.73
10.000	10/02	104.7900	+0.020	8.00	8.07	8.35
8.500	04/02	103.5500	-0.100	7.95	8.18	7.38
8.500	11/00	99.5700	+0.296	9.07	9.35	9.30
9.500	03/97	101.2903	-0.071	8.19	8.16	8.64
8.500	11/02	101.8450	-0.050	8.25	8.24	8.43
8.000	07/02	102.8800	+0.110	7.40	7.39	7.48
12.000	05/02	93.0250	-	13.71	13.58	14.52
10.000	09/99	101.6880	-0.118	4.77	4.51	4.77
10.000	03/02	105.1196	-0.077	4.81	4.81	4.86
8.500	06/02	105.0000	+0.140	7.46	7.51	7.71
10.000	06/02	86.9500	-0.850	12.71	12.70	13.21
10.000	11/96	106.25	-0.25	7.38	7.54	8.38
8.750	06/02	105.30	+0.30	8.38	8.31	8.88
9.000	10/02	102.21	+14.23	8.88	8.84	9.23
6.375	07/02	97.06	+3.52	6.78	6.83	6.55
7.000	11/22	102.52	7.45	7.36	7.38	
8.500	03/02	97.5250	-0.405	8.30	8.84	9.28

ECU (French Govt) 8.500 03/02 97.5250 -0.405 8.30 8.84 9.28

London closing, "denotes New York morning session" Yields: London market standard

Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents)

Prices: US, UK in 32nds, others in decimals Technical Data/ATLAS Price Sources

short end of the market remained nervous about a possible rise in interest rates at the Bundesbank's repo operations.

The Lifte bund futures contract opened at 91.44 and traded up to a high of 91.87 before closing at 91.53.

However, volume in the market was relatively low at around 28,500 contracts.

The market will be watching today's allocation of 14-day securities repurchase agreements to see whether there is an increase in the minimum rate at which funds are allocated.

Dealers said there was some nervousness that the minimum rate may rise, especially as overnight money has edged up to 8.55-9.05 per cent, from 8.85-

FT FIXED INTEREST INDICES

Dec 8	Dec 7	Dec 6	Dec 5	Dec 4	Dec 3	Dec 2	Dec 1	Dec 0	Dec -1
102.57	102.57	102.57	102.57	102.57	102.57	102.57	102.57	102.57	102.57
102.79	102.79	102.79	102.79	102.79	102.79	102.79	102.79	102.79	102.79

Dec 8 Dec 7 Dec 6 Dec 5 Dec 4 Dec 3 Dec 2 Dec 1 Dec 0 Dec -1

Dec 8 Dec 7 Dec 6 Dec 5 Dec 4 Dec 3 Dec 2 Dec 1 Dec 0 Dec -1

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Moody's downgrades not a major obstacle, say UK insurers

By Brian Bollen

THE downgrading of financial strength and debt ratings of Sun Alliance and Eagle Star by Moody's Investors Service, the UK agency, is being seen as something of an irritation by the UK insurance industry.

The reaction from the companies and some of their competitors was that the move, which largely reflects concerns about exposure to UK domestic mortgage indemnity risk, is not a major obstacle to tapping capital markets.

"The economic environment seems to be improving," said Mr Peter Fiddimore, responsible for corporate treasury at Sun Alliance. Being put on review in the first place pushed up commercial paper borrowing costs by up to 25 basis points, he said.

Moody's acknowledges that there are no major adverse developments in the UK housing sector or large claims caused by terrorism or storms,

the fortunes of UK composite insurers could be at a turning point as premium rates harden and interest rates fall.

Moody's downgraded to A2 from A1 the senior debt ratings of the Sun Alliance group holding company and the financial strength rating of the main operating company to A3 from A2, while Eagle Star Insurance's financial strength rating was lowered to A2 from A1. Royal Insurance's financial strength rating was confirmed at A2. Between them, the three groups have an estimated 60 to 65 per cent of the domestic mortgage indemnity market.

"The fact that the downward ratings changes are so small compared with the mortgage indemnity crisis indicates there are compensating comforts from other factors," said Mr David Anthony, a senior analyst at Moody's.

"Everybody is at least guardedly optimistic that 1993 could be a good year for the UK composite sector," he added.

US pension funds to invest in Poland

A NUMBER of US company pension funds are to take part in a \$100m private investment fund for Poland, the largest so far devoted to that country, writes Christopher Bobinski in Warsaw.

The Polish Private Equity Fund has been fully subscribed, with one-third of the financing coming from the European Bank for Reconstruction and Development.

Another \$50m is being provided by the Polish-American Enterprise Fund (PAEF), charged by the US Congress with investing \$240m of US public money in Poland's private sector. Creditanstalt, of Austria, has provided \$7m, with the balance made up by other pension funds, including that of General Electric.

The assets of both the Polish Private Equity Fund and the PAEF will be managed by a new company, Enterprise Investors, composed of the PAEF's staff.

Firm demand for \$2bn Citicorp offering

By Tracy Corrigan

CITICORP'S \$2bn global offering of credit card backed securities, launched yesterday for pricing today, met firm demand from investors in both

INTERNATIONAL BONDS

the US and Europe. The offering, consisting of \$1bn of two-year notes and \$1bn of five-year notes, is backed by Citicorp credit card receivables.

The indicated pricing is 17 to 20 basis points over the London interbank offered rate for the two-year notes, arranged by Citibank, and 30 to 32 basis points over Libor for the five-year notes, arranged by Salomon Brothers.

The notes will be priced tomorrow at par or slightly below.

Both two-year and five-year notes were issued in conjunction with junior tranches of

notes arranged by J.P. Morgan.

Dealers said that demand for the two-year notes had been particularly strong in the US, where the large money funds provide a ready investor base.

"Most of the US funds are able to go out as far as two years, and are prepared to do so when the yield is high enough," said one trader, who added that the same sort of investor base did not exist in Europe.

Citicorp has already launched an issue of floating-rate notes backed by credit card receivables, earlier this year.

COMPANY NEWS: UK

Cuts help raise Siebe by 6.8%

By Andrew Bolger

COST-CUTTING helped Siebe, the UK-based international engineering systems and controls group, increase interim pre-tax profits in spite of lower sales.

Turnover fell by 6.8 per cent to £757.3m in the six months to September 30, but the pre-tax profits were 6.8 per cent higher at £20.3m (£19.9m).

Mr Barrie Stephens, chairman, said there were glimmers of recovery in the US - particularly in consumer-related goods - but this would be partly offset by signs of a slow-down in Germany and Japan.

The group had achieved higher margins by better cash management, tight control of working capital and staff reductions, mainly in the US.

A total of 1,200 jobs were shed during the six months, bringing the group's total workforce down to 31,000, compared with 38,000 three years ago.

More than 90 per cent of Siebe's sales go outside the UK, with the US accounting for about 45 per cent. Had these results been translated at last year's exchange rates, the sales figure would have been £30.9m higher and the pre-tax profits figure up £2.7m.

Siebe welcomed the recent devaluation of sterling and said it was likely to reverse the first half's adverse translation effect, assuming that the pound stayed at its present level.

Mr Stephens said the group had completed the integration of Foxboro, the US industrial controls group which it bought for \$650m in 1990, and was now on the look-out for further acquisition opportunities.

Net cash flow was £34.2m (£36.3m) and net indebtedness was £490m, giving gearing of 68.7 per cent, compared with 88.4 per cent last year. The group said it was on target to

reduce the gearing figure to the mid-50s by next year.

Mr Stephens said the group spent the equivalent of 4.1 per cent of sales on research and development, of which it capitalised £14m during the half-year.

Siebe's tax rate was 41.9 per cent (41.4 per cent). It included a write-off of £700,000 on unrelieved advance corporation tax, down from £2m thanks to increased repatriation of royalties.

Earnings per share rose by 5.4 per cent to 11.7p (11.1p) and the dividend is increased by 10 per cent to 3.3275p (3.025p). See Lex

BA bid for 25% of Qantas expected today

By Paul Betts, Aerospace Correspondent

BRITISH AIRWAYS is today expected to make a bid for a 25 per cent stake in Qantas, the Australian national carrier due to be privatised next year.

The BA board met yesterday and is understood to have agreed the bid. A formal notification will be made today, the Australian government's deadline for bids from foreign airlines for a stake in Qantas.

BA is expected to face stiff competition from Singapore Airlines and Air New Zealand. Under the Australian government's rules, the maximum stake a foreign carrier can acquire is 25 per cent, thought to be worth between A\$600m and A\$750m (£340m) depending on the Australian government's decision on how much it is prepared to recapitalise the airline before privatisation.

Sir Colin Marshall, BA's chief executive and deputy chairman, said yesterday that a partnership between the UK carrier and Qantas would make "a very good fit".

Qantas would give BA a much stronger presence in the Asia-Pacific market which continues to show the fastest growth of any aviation market. Sir Colin sought to dampen Australian fears that BA was seeking to take control of Qantas.

"There seems to be a misconception in Australia that our only interest is in taking over Qantas. It isn't. Qantas will remain an Australian airline under Australian control."

The US government is expected to make a decision by Christmas on BA's proposed acquisition of a 44 per cent stake in USAir for \$750m (£483m). Sir Colin said USAir had called an extraordinary meeting on December 18 to approve the partnership. The deal continues to face fierce opposition from the big three US airlines, American Airlines, United Airlines and Delta Air Lines.

Tomkins likely to have no net debt after RHM buy

By Richard Gourlay

TOMKINS, the conglomerate, is likely to end up with no net debt after its £550m acquisition of Banks Hovis McDougall, the milling, baking and grocery products company, according to the company's advisers.

Costs relating to the likely closure of a number of bakeries will, however, leave the group with some net gearing. Before its move on RHM, Tomkins had net cash of about £150m.

Tomkins said yesterday that as of Monday it had received valid acceptances representing about 61.97 per cent of the RHM ordinary shares. The company had also bought 22 per cent of the shares for cash

during the offer period.

RHM shareholders representing some 44 per cent of acceptances opted for Tomkins cash alternative to the ordinary offer. Some 37 per cent elected for the all share offer while 18 per cent accepted the ordinary offer which involved a split of cash and shares.

The advisers said the pattern of acceptances had left Tomkins "broadly neutral" with no cash or net debt and in line with what it was hoping for at the outset of the bid.

Yesterday's announcement suggested shareholders have cast aside their immediate worries about the bid. Early in the bid, concern that Tomkins had bitten off more than it could

chew had helped push the shares close to the 200p price of the rights issue that is partly financing the deal.

Yesterday, however, Tomkins shares responded to the level of acceptances by jumping 7½p to 238½p. This was some 10p above the price at which Tomkins' share offers were worth more than the cash alternative.

BZW, the company's advisers, said it had sent notice of the second instalment of the rights issue to Tomkins shareholders.

Tomkins is unlikely to make any early statement on the number of RHM's bakeries it is likely to close or the level of related acquisition provisions.

Mansfield Brewery up to £6.7m

MANFIELD Brewery, the Yorkshire and east Midlands brewer, lifted pre-tax profits from £55.36m to £6.47m in the 26 weeks to September 26.

Group turnover edged ahead to £80.8m (£79m). Mr Joss Nangle, acting chairman since the death of Mr Geoffrey Kent in September, said that sales volumes of draught beers advanced by 4.3 per cent against an estimated regional decline of 3.5 per cent.

The success with draught sales, along with "continued strong control over costs" resulted in trading profits up 13 per cent at £6.65m. This was struck after a £900,000 provision for bad and doubtful debts in the free trade.

Earnings per share inched up to 38.8p (38.4p) and the interim dividend is lifted 10 per cent to 4.4p (4p).

Tribune in £2m loss

Tribune Group, the Irish newspaper company, reported a pre-tax deficit of £2.03m (£2.15m) for the 15 months to July 1. That compared with losses of £2.34m for the year to end-March 1991.

The board intends to eliminate the group's two-tier structure by making the publications side a wholly owned subsidiary of the newspaper arm.

Eurocopy falls 76% to £1.7m

By Peggy Hollinger

PRE-TAX PROFITS at Eurocopy fell 76 per cent to £1.7m in the year to end-September, as the office equipment distributor struggled to repair the damage resulting from adverse publicity over sales practices at a Scottish subsidiary.

For the first four months Eurocopy had been under investigation by the Office of Fair Trading - it was eventually cleared - and the remaining eight months were "perhaps the worst in living memory," Mr Michael Armitage, finance director, said.

Efforts to rebuild sales, which melted largely due to the inquiry, had been thwarted by recession. Turnover for the 13 months to September 30 declined by 23 per cent to £34.3m.

Hardest hit had been the machine sales division, which accounted for some 25m of the decline in group turnover. This business incurred a loss of £4.5m.

The group's struggling furniture business suffered a loss of £1m during the year. Eurocopy is reviewing several options for this operation and a decision is expected soon.

Eurocopy's servicing operations suffered from

a decline in copy volumes.

The company had taken action to cut costs, including a 19 per cent reduction in employee numbers. It was estimated that annual savings would be about £1m.

The dividend was cut by 2.4p to 0.5p for a total of 1.6p (4p). Earnings per share tumbled from 9.45p to 2.32p.

COMMENT

Eurocopy has truly had an "annus horribilis". Yet with this set of results, one might hope that things can only get better. Still, it will be a long, hard slog to rebuild business, particularly in Scotland where the losses ran to £1m. This is a group which truly needs economic recovery. Short of that, Eurocopy should benefit from cost cutting. Analysts are forecasting about £2.5m for this year, based on flat servicing profits and reduced losses in machine sales. If the company does something about the furniture division, then profits could be as much as £500,000 better. The prospective p/e of 11 leaves the shares fairly valued in the short-term. However, economic recovery could change the whole ballgame on a longer-term basis.

OIS returning to market with £15m tag

By Matthew Curtin

OIS International Inspection, the technical inspection services group, is seeking a £15m listing on the Stock Exchange because its owner, Adia - the troubled Swiss employment group - is continuing to dispose of non-core interests.

The listing, scheduled for December 22 with the placing of 30m shares of 50p each, effectively marks the return of OIS to the Stock Exchange after a five-year absence.

In 1988, the group was taken over by a consortium led by Mr Paul Bristol, who changed its name to Brompton Holdings, then listed it on the USA.

Brompton had a chequered career and was bought by Adia for £11.7m in June 1989. Mr Malcolm Russell, managing director of OIS, said yesterday the listing was prompted by the changing focus at Adia, but the group was in a good position to go public.

OIS had a wide operational

base, selling its services to the construction, oil, transport and power generation industries, with customers such as Shell and British Gas. The business was driven by regulatory requirements for non-destructive testing - using ultrasonics and radiography - of installations for safety, quality and environmental purposes.

Turnover improved from £37m in 1988 to more than £40m, of which 40 per cent came from the Middle East, the Far East and Africa.



East Midlands Electricity plc

INTERIM RESULTS FOR THE SIX MONTHS TO 30 SEPTEMBER 1992

SUMMARY GROUP PROFIT AND LOSS ACCOUNT

Six months ended 30 September 1992

	Unaudited 6 months to 30 September 1992 £m	Unaudited 1991 £m	Audited 12 months to 31 March 1992 £m
TURNOVER	681.5	658.1	1,543.8
OPERATING PROFIT	37.3	30.3	157.5
INCOME FROM FIXED ASSET INVESTMENTS	4.1	4.3	12.6
NET INTEREST PAYABLE	(11.1)	(9.9)	(20.1)
PROFIT BEFORE TAXATION	30.3	24.7	150.0
TAXATION	(8.2)	(6.8)	(40.7)
PROFIT ATTRIBUTABLE TO SHAREHOLDERS	22.1	17.9	109.3
DIVIDEND	(12.5)	(11.1)	(37.3)
RETAINED PROFIT	9.6	6.8	72.0
EARNINGS PER ORDINARY SHARE (pence)	10.1	8.2	50.1
DIVIDEND PER ORDINARY SHARE (pence)	5.72	5.10	17.10

SUMMARY GROUP BALANCE SHEET

As at 30 September 1992

	Unaudited 30 September 1992 £m	Unaudited 1991 £m	Audited 31 March 1992 £m
FIXED ASSETS	687.1	625.5	662.9
CURRENT ASSETS	465.7	386.5	403.9
CREDITORS: amounts falling due within one year	346.0	218.3	267.8
NET CURRENT ASSETS	119.7	168.2	136.1
TOTAL ASSETS LESS CURRENT LIABILITIES	806.8	793.7	799.0
CREDITORS: amounts falling due after more than one year	207.8	263.2	210.2
PROVISIONS FOR LIABILITIES AND CHARGES	27.4	24.7	23.1
	571.6	505.8	565.7
CAPITAL AND RESERVES	571.6	505.8	565.7
NET BORROWINGS	114.2	160.4	180.1
GEARINGS	20.0%	31.7%	31.8%

Notes

1. The interim accounts for the six months to 30 September 1992 and the comparative results to 30 September 1991, which are unaudited, have been prepared under the historical cost convention, as modified by the valuation of fixed asset investments. The accounting policies adopted are consistent with those applied for the year ended 31 March 1992.

2. The financial information contained in this interim statement does not amount to statutory accounts within the meaning of Section 240 of the Companies Act 1985. The accounts for the year ended 31 March 1992, which include an unaudited report by the auditors, have been delivered to the Registrar of Companies.

3. Taxation for the six month period has been provided on the basis of the estimated effective tax rate.

4. The contribution of earnings per share for the six months ended 30 September 1992 is based on earnings of £22.1m and a weighted average of 218.1m ordinary shares in issue during the period.

"The core electricity business performed well and the recently acquired businesses made a positive contribution.

"Management effort continues to focus on permanent reductions in operating costs. Many of the measures implemented in the first half year will provide long term operational and financial benefits. The underlying strengths of our company give me great confidence not only for the outcome of this financial year but for the years ahead."

8 December 1992

John Harris
Chairman and
Chief Executive

8 December 1992

A copy of this statement can be obtained by applying to the company's Corporate Relations Department, East Midlands Electricity plc, 398 Coppice Road, Arnold, Nottingham NG5 7HX. Tel: (0502) 269711

EAST MIDLANDS ELECTRICITY PLC - CHAIRMAN'S STATEMENT

The core electricity business performed well and the recently acquired businesses made a positive contribution. Group turnover for the six months to 30 September 1992, at £681.5 million, rose 3.6 per cent over the comparable period in the previous year. Profit before taxation improved 23 per cent to £30.3 million, whilst earnings per share at 10.1 pence were 23 per cent higher. The interim dividend is being increased by 12 per cent with the declaration of a payment of 5.72 pence per share. This will be paid on 24 March 1993, to all shareholders on the register at 5 February 1993.

The company has distributed virtually the same level of units as last year reflecting the resilience of the East Midlands region. The supply business improved its performance. This arose in part due to the recovery of uplift charges from last year and also as a result of a trend by customers towards sales contracts which have smaller differences between winter and summer prices. This has the effect of bringing forward profits from the second half of the year into the first.

In retailing the move from uneconomic high street locations has continued with six more shops to close by March 1993. This affected operating performance in the first quarter of the year but in the second quarter the business traded profitably. In order to continue the development of our retail business we announced a joint venture between ourselves and Yorkshire Electricity Group plc, operational from 1 April 1993. This important development will provide significant operating economies.

Ambassador Security Group PLC, which was acquired in August 1991, continues to grow organically and in the six months under review improved its contribution to operating profit. It has been particularly successful in securing nationwide contracts for security systems.

The problems encountered by the original electrical contracting business are being vigorously addressed. New terms and conditions of employment have been agreed and are in place and further cost reduction initiatives are being taken, the full benefits of which will be seen in subsequent years. Elsewhere in contracting, business is being secured through the careful positioning of each company within its own specialist sector on a national basis.

One of our key objectives is to minimise the price of electricity to our customers. This ensures that we can compete effectively in the energy market and hence meet the needs of both customers and shareholders. In this context we welcome the Government enquiry into the future British energy policy. Within the East Midlands a number of pits are scheduled for closure and whilst it is hoped that some can remain viable, it is essential that the final decision does not result in increased prices to our customers.

The company will enhance shareholder value by continuing to focus on the core business and within it the twin objectives of improving customer service whilst remaining one of the lowest cost operators in the industry. In addition to setting the standard of guaranteed timed appointments, which is as yet unrivalled, the company has also introduced more flexible working arrangements for the benefit of customers. Management effort continues to focus on permanent reductions in operating costs and the restructuring within the district organisation has now commenced.

The underlying strengths of our company give me great confidence not only for the outcome of this financial year but for the years ahead.

East Midlands Electricity

COMPANY NEWS: UK

Capital spending cuts Vaux to £31m

By Philip Rawstorne

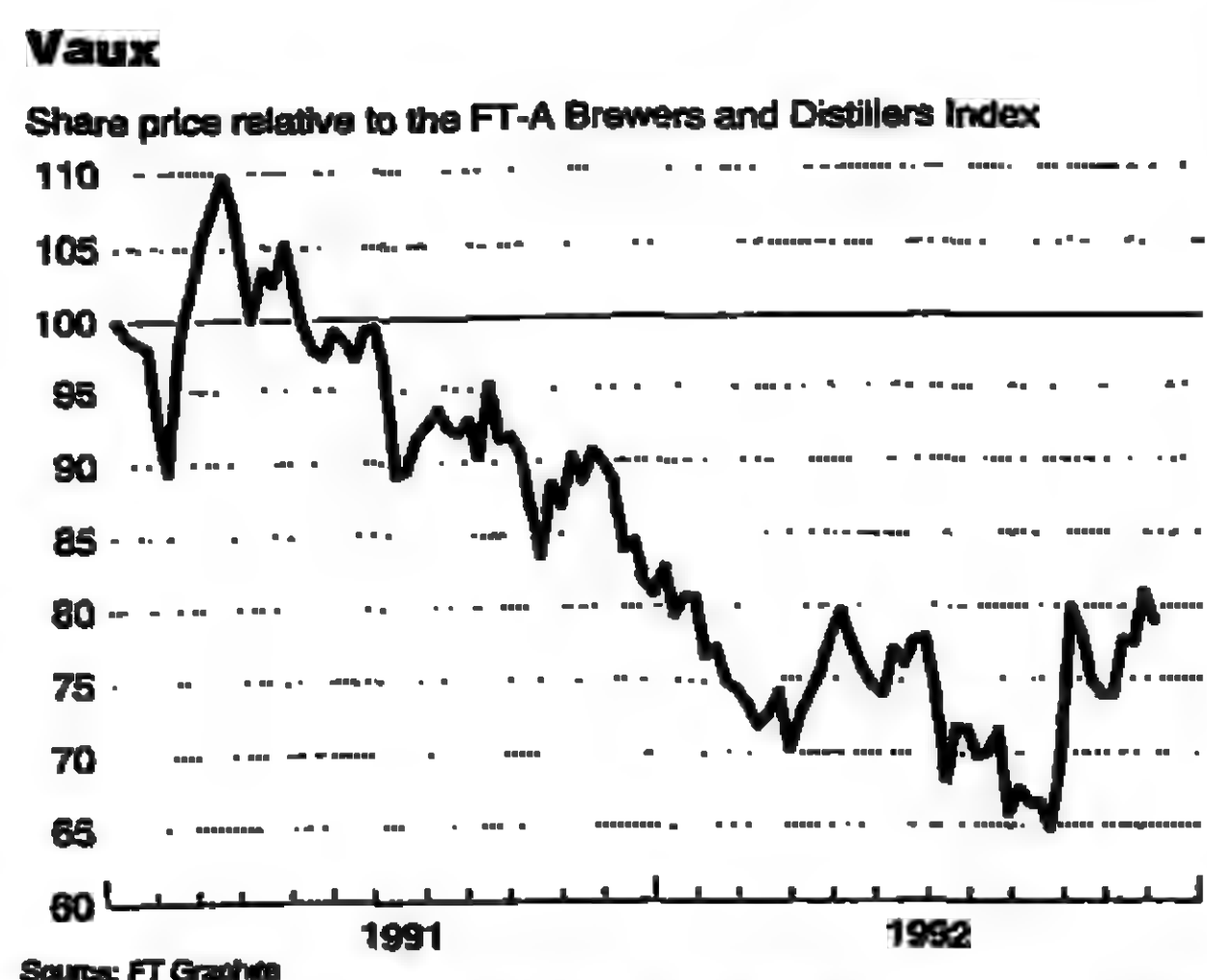
VAUX GROUP, Sunderland-based regional brewer and hotels and nursing homes operator, held its final dividend at 6.1p in spite of a 10 per cent fall in pre-tax profits from £34.3m to £30.9m.

Results for the 53 weeks to October 3 were depressed by a £4.65m increase in interest charges after heavy capital spending on hotels and pubs.

Spending amounted to £75m - £25m on the acquisition of 270 pubs, £15m on the completion of new hotels at Bristol and Bexley, £17m on refurbishment and £8m on the breweries.

During the year the group raised £20m from the sale of the Blayney off-licence chain, £20m from the issue of debenture stock and £10m from a hotel sale and leaseback.

Trading profits rose 10.9 per cent to £39.5m (£35.6m) on turnover 7.5 per cent lower at £247m (£267m).



Earnings per share declined 6.3 per cent from 20.31p to 19.04p.

The total distribution of 9.35p compares with 9.2p last year.

Acquisitions contributed to a

27 per cent increase in profits from Vaux and Wards breweries and the tenanted pub estate to £19.5m (£15.3m). Turnover improved by £10m to £98.3m.

The group has bought 448

pubs since 1989 and has "substantially strengthened" its regional position in the north of England, said Mr Paul Nicholson, chairman.

Vaux Inns, taking in the group's 127 managed houses, achieved a 2 per cent growth in profits, from £4.65m to £4.74m, on turnover ahead 10.6 per cent at £36.5m.

Volume sales through the group's own pubs rose 10.5 per cent - but would have declined 5 per cent if thenew pubs were excluded. Free trade volumes were slightly higher.

Profits from St Andrews nursing homes rose 26 per cent from £3.24m to £4.09m and five new homes are planned during the next 18 months.

The recession remained a drag on hotel profits which increased less than 1 per cent to £12.5m (£12.4m) on turnover up 10.7 per cent to £77.9m.

Borrowings increased from £101m to £122m and gearing increased from 20.8 per cent to 32.4 per cent.

COMMENT

Vaux was a bit unlucky to choose 1987 to launch a five-year plan for its hotels development. It has spent £178m - and ended in a recession with its properties devalued by a third and half the profits it forecast.

The last two hotels to be completed, at Bristol and Bexley, cost £58m and contributed £600,000 in operating profits last year. Having taken another £1m costs out of the operations, there is not much else to be done except pray for a speedy end to the recession.

A deal of consolation, in the meantime, is provided by the rapid payback from strengthening the pub estate with acquisitions in northern England and by the improving prospects for the group's nursing homes. Analysts forecast profits of between £26m and £27m clean of property next year, and on a prospective p/e of 13.5 times rate the stock undervalued on the group's recovery potential.

Whitecroft £0.73m loss better than expected

By Ian Hamilton Fazez, Northern Correspondent

WHITECROFT, the Cheshire mini-conglomerate which has slimmed down to three core businesses, reported a pre-tax loss of £727,000 for the half year to September 30, compared with profits of £2.23m.

That was better than expected, but the company is sticking to its decision to pass its interim dividend, announced a few days before the end of the period, when it forecast losses of about £1m. A decision on the final dividend will be taken in June.

The improvement over forecast was the result of revaluation of Whitecroft's pension fund, which actuaries said would be adequately funded at company contributions of £600,000 a year, compared with £2.5m previously.

The figure was struck after interest charges of £1.63m (£1.64,000). In previous years these were largely charged against property development and did not appear in the profit and loss account.

Turnover fell 4.6 per cent to £60.19m (£63.1m) for trading profits down 62 per cent to £204,000 (£2.39m).

Mr Peter Gould, chairman, said the group's two years of restructuring were now largely complete, with £3.6m of capital spending in the last six months, substantial cutting of the cost base and a reduced number of operating units from 30 to 15.

Losses per share were 2.89p, compared with earnings of 3.25p.

The payroll was 1,900, compared with 2,500 a year ago and more than 3,000 when Mr Gould became chairman late in 1990. He said marked improvements in cash flow and profitability were expected from January.

Gearing is 102 per cent and shareholders' funds declined £6.5m to £28.6m because of the loss and disposal of the group's double-glazing businesses.

Whitecroft now has lighting, doors and windows, certain fibres divisions all of which are trading profitably.

Sage maintains growth record with 33% advance

By Alan Cane

SAGE GROUP, a Newcastle-based supplier of accounting software and stationery, finished the year slightly ahead of analysts' expectations, recording profits before tax of £8.85m, up 33 per cent on last year's £6.64m.

Sage has now shown significant growth in revenues and pre-tax profits each year since 1988.

The share price yesterday improved 21p to 455p.

The company also announced the acquisition of Yorkshire Business Forms for an initial £1.05m, made up of £525,000 cash and a similar sum in new ordinary shares.

Additional payments to a maximum of £2.95m will be paid over two years dependent on net profits in the period. Up to half the deferred payment may be made in shares.

Turnover rose 36 per cent to £27.3m (£20m) in the year ended September 30, of which £11.1m came from US operations.

Earnings per share rose 21 per cent to 30.9p (25.5p) and the total dividend is raised 12 per cent to 9.02p (8.05p) via a final of 6p.

Cash balances rose sharply to close at £7.2m (£1.2m) but have now been reduced by the purchase of Remote Control International in California, Ciel in France and Yorkshire Business Forms. The company remains strongly cash-generative.

During the year Sage decided to discontinue Mainlan, its US operation which specialises in networking software - losses amounted to £400,000 of which £250,000 were closure costs. Sage will continue to market Mainlan in the UK where it has proved successful.

DacEasy, a US accounting software company acquired two years ago, seems to be proving its worth with operating profits of £2.2m on sales of £10.2m.

COMMENT

Sage's strength and the secret of its ability to generate cash is its extensive customer list in the US and UK. It makes what it terms "annuity" sales to these customers - upgrades and new versions of software packages and stationery. Abandoning the Mainlan disaster in the US has removed one of the few downsides to Sage's progress. Others are a risk of a decline in UK packaged software prices to US levels and an over-ambitious acquisition strategy. Sage's management, however, has to date proved level-headed - DacEasy, for example, is beginning to deliver its full potential. A rash of new products suggests that analysts' expectations of £10.9m pre-tax for 1993, giving an undemanding prospective p/e of about 12, will not be disappointed.

London & Provincial Shop faces receiver

By Vanessa Houlder, Property Correspondent

London & Provincial Shop, a subsidiary of Randsworth Acquisition, said it could go into receivership within a fortnight, unless a dispute over an alleged breach of covenant is resolved.

The dispute concerns a £1.4m sale in 1990 of a property that was subject to a first charge as security for debenture stock.

The failure to execute a formal release from this charge was seen as a breach of covenant by the Law Debenture Trust Corporation, the trustee

of the debenture stock. Late on Friday, Law Debenture served a formal notice on the company requiring it to make good the alleged breach of covenant.

If their claim is substantiated, they are entitled to appoint a receiver.

London & Provincial Shop said it did not believe there had been a breach of covenant.

"The directors remain satisfied that at all times the company has acted, both in relation to this matter and generally, in accordance with the terms of the Debenture Trust Deed," it said.

Citizens Financial strongly ahead

Citizens Financial, the US subsidiary of the Royal Bank of Scotland, reported net income of \$17.54m (£11.5m) for the year ended September 30. That compared with \$8.88m returned for the preceding 12 months.

Tangible capital ratio was 7.18 per cent, more than double the federal 3 per cent minimum requirement. At the year-end, Citizens' total risk-based capital ratio was 12.43 per cent - well in excess of the federal minimum standard of 7.25 per cent.

Total assets at September 30 were \$4.4bn.

Ewart gets go-ahead for Laganbank project

By Tim Coone in Dublin

SOME £20m in government finance for the Laganbank property development project in Belfast was approved yesterday, giving the go-ahead to Ewart, the project's lead developer, to begin contracting for an estimated £110m in construction work.

Mr Barry Gilligan, managing director of the Belfast-based company said: "This is excellent news for Ewart... the government has quite rightly recognised the importance of this huge capital investment to the long term future of the Northern Ireland economy."

The development is the centrepiece of the government's Laganbank development plan and will include a new concert hall to be financed by the Belfast City Council, a 200-bed hotel, 400,000 sq ft of office space as well as retail space and car parking. The complex will be located near the Belfast City Hall.

Last month, Monarch Properties, the private property developer based in Dublin, sold its 29.2 per stake in Ewart for 80p per share, having failed in its attempt to take control of the board.

Butte accounts not ready for 1992 AGM

By Kenneth Gooding, Mining Correspondent

BUTTE MINING, which is claiming damages of \$325m (£214m) in the US against more than 70 former advisers, directors and investors, has told shareholders its accounts for the year to end-June will not be ready until next month but the Companies Act requires it to hold an annual meeting in 1992.

Consequently, the company has arranged its meeting for December 29, to be followed by an extraordinary meeting early next year to receive and adopt the accounts.

Mr David Lloyd-Jacob, chairman, said that Ernest & Young, formerly Butte's auditors, resigned after being named as defendants in the US lawsuit and have been replaced by Arthur Andersen.

Substantial new work on the accounts was being carried out and it had not been possible to prepare them in time for this year's annual meeting.

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CONTROLS

SPECIALIST MECHANICAL ENGINEERING

SAFETY & LIFE SUPPORT

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PILLARS OF STRENGTH

Results for the six months to September 30, 1992	1992 Millions	1991 Millions
Turnover	£757.3	£812.9
Pre-Tax Profit	£80.3	£75.2
Dividends	£12.9	£11.7
Dividends Per Share	3.3275p	3.025p
Earnings Per Share	11.7p	11.1p

Siebe plc, Saxon House, 2-4 Victoria Street, Windsor, Berkshire SL4 1EN, England.

Turnround at Campbell & Armstrong

CAMPBELL & Armstrong, the shop and office fitting group, swung from losses of £249,000 to profits of £20,000 pre-tax for the six months ended September 30.

Turnover slipped to £25.5m (£31.3m) reflecting a "more prudent approach to tendering" as overall margins remained under pressure.

There was an improvement in the core shop-fitting activities although the construction-related operations continued to face challenging conditions.

In view of the difficult prevailing trading environment the interim dividend is omitted - it was paid last time. Declaration of a final will depend on second half trading.

Earnings per share of 0.4p compared with previous losses of 4.5p. Extraordinary charges of £1.33m were connected to discontinued businesses, including a significant write-down of related property.

The shares closed 3p higher at 17p.

Recovery under way at Atkins

Atkins Group, the Leicester-based textile company, returned to the black in its seasonally unfavourable first half.

Despite "extremely difficult general economic conditions" turnover for the six months to September 30 improved slightly to £7.68m and pre-tax profits amounted to £16,000, against losses of £268,000 last time restated to allow for new accounting standards.

Mr David Haggart, the retiring non-executive chairman, said: "With operating profits up, stable gross margins and overheads down, there is clear evidence that the significant changes carried out during the

NEWS DIGEST

last two years are yielding results." The improved performance should continue in the second half, he added.

The interim dividend is maintained at 3.6p, again uncovered by earnings of 0.33p (losses of 4.23p) per share.

Avesco back in the black with £23,000

Avesco, the radio and electronic goods and television and film services company, reported a pre-tax profit of £23,000 for the half year to September 30.

This compares with a profit of £147,000 last time but marked a turnround from losses of £2.26m for the 1992 year.

Mr Richard Murray, chairman, said the profits for the first six months would have been substantially higher but for the increase in research and development expenditure at Videologic.

Turnover expanded by £1.6m to £11.2m. Finance costs rose to £308,000 (£269,000) and after tax of £8,000 (£49,000) earnings came out at 0.025p (0.164p).

The interim dividend is passed (0.5p).

Chiltern Radio £392,000 in red

For the period to September 30, Chiltern Radio reported its first full-year loss since it began broadcasting in 1981 after what Mr Peter Burton, chairman, described as another difficult year for the industry.

He added that the company had been trading profitably in the present year.

On turnover of £5.27m (£4.38m), which included a full-year contribution from the west of England acquisitions, the pre-tax loss was £392,000, compared with a profit of £114,000. There was a profit of £114,000. There was a profit of £114,000. There was a profit of £114,000.

Losses per share were 4.5p.

At a meeting of the Board of Directors on 28th December, 1992, an interim dividend was declared of 7.0p per share payable on or after 1st January, 1993 to persons presenting coupon no. 95 detailing their shareholdings to the company.

(Shareholders who wish to receive their dividend by cheque should complete and return the coupon to the Company Secretary, Chiltern Radio, 1st Floor, 100, The Quadrant, London W1A 1AA, or at Citicorp, 19 Boulevard des Capucines, 1000 Brussels, Belgium.

7 Hobart Place, London SW1W 0JH

© 1992 Chiltern Radio

Umeco declines to £53,000

Profits of Umeco fell from £68,000 to £53,000 pre-tax for the 26 weeks ended September 26. Turnover of £5.56m compared with £5.42m.

Earnings slipped to 0.6p (0.8p) but the interim dividend is maintained at 0.75p "in view of the strong balance sheet and the underlying strength of the company", the directors said.

The USM-quoted company is a maker of aircraft refuellers and a distributor of seals, sealants and components primarily serving the aerospace industry.

Safeland 'pleased' with fall to £36,000

In bleak conditions Mr Raymond Lipman, chairman of Safeland, the property company, said he was pleased with a profit of £36,000 for the six months to September 30. The figure compared with £31,000 last time.

Turnover increased from £3.25m to £3.95m. This signified an increase in the size of transactions rather than in number. Mr Lipman said the company was still being very selective in the projects it undertook.

Earnings per share were 0.13p (0.28p) and the dividend is reduced to 0.08p (0.14p).

M&G Second Dual net assets rise 12%

Net asset value per capital share of M&G Second Dual Trust at November 30 was 462.77p, up 12 per cent on the previous 405.45p.

The split capital trust declared an unchanged interim dividend of 13.15p per income share for the half year to November 30 and forecast a final of at least 10.77p for the year to May 31 1993.

CHARTER CONSOLIDATED P.L.C.
NOTICE TO HOLDERS OF SHARE WARRANTS TO BEARER

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7 Hobart Place, London SW1W 0JH

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COMPANY NEWS: UK

Electricity group opposes one-year, coal-fired power deal

East Midlands advances 23%

By Michael Smith

EAST MIDLANDS Electricity yesterday reported a 23 per cent rise in pre-tax profits to £20.3m for the six months ended September 30.

At the same time East Midlands voiced opposition to a one-year, coal-fired power deal between electricity generators and the regional companies.

Mr John Harris, chairman of the company, which is leading heads of agreement talks with PowerGen and National Power, said he preferred five-year contracts because they would provide more stability for the coal and electricity industries.

A one-year deal would not provide assurances of falling prices in later years as would a five-year agreement.

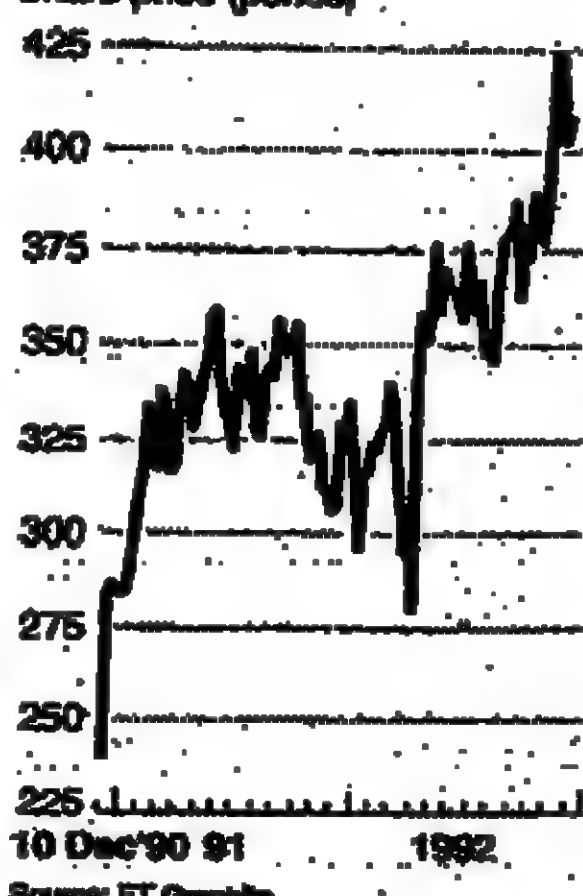
Mr Harris's comments follow suggestions by Mr Michael Heseltine, the president of the Board of Trade, that a one-year deal could be concluded, although he also said any review should not prejudice the outcome of the white paper.

Mr Harris also said he was opposed to postponing the liberalisation of the electricity market from 1994 if that led to higher prices for customers.

Turnover for the opening

East Midlands Electricity

Shares price (pence)



Source: FT Computix

half year rose to £681.5m (£658.1m). The interim dividend is stepped up to 5.72p, a 12 per cent increase on last time's 5.1p. Earnings per share emerged at 10.1p (8.2p).

Losses in the supply business were reduced from £35m to £20m, in part because of the recovery of uplift charges from last year but also as a result of customers taking contracts with a smaller price difference between winter and summer.

Distribution profits, made on steady volumes, were down



John Harris: more stability with five-year contracts

loss this year although in line with other rees East Midlands would soon feel the benefit of changed terms and conditions of contracting employees, the numbers of which have been reduced from 800 to 600.

COMMENT

The beauty of electricity for investors is that it combines safety with a strong dividend flow. The market's perception of East Midlands is that it is less safe than other rees and as a result the dividend yield is among highest in the sector.

The company concerns critics through its individualistic stance. Mr Harris's propensity to stand up and be counted, as demonstrated by his comments on the one-year deal yesterday, matter less than the declared aim of seeking 30 per cent of profits outside of the regulated business by the year 2000 and the possibility that it will participate, albeit in a small way, with the Union of Democratic Workers in a bid for a part of British Coal. There appears little wrong with the non-core business but until it performs outstandingly East Midlands' shares, on a prospective view of 6.3 per cent assuming a full year dividend of 19.15p, will struggle to catch up with other rees.

£4m to £80m and retail, which is being restructured as a result of the joint venture with Yorkshire Electricity, lost £800,000, against a £800,000 profit in the comparable period a year earlier.

Mr Harris said retailing was profitable in the second quarter, however, and that there would be a small operating profit in the full year.

Six small shops are to be closed by next March leaving 65.

Contracting would incur a

Emess to sell Tenby for £22m

By Roland Rudd

EMESS, the lighting and electrical accessories company, is to sell Tenby, the electrical manufacturer and distributor, to Legrand, the French electrical group, for £22m.

The divestment, which has to be ratified by shareholders at an extraordinary meeting on December 23, will reduce borrowings from £38m to £16m, giving gearing of 23 per cent.

Mr Michael Meyer, chairman, said the sale would allow the company to focus on its core businesses of consumer and commercial lighting.

The disposal has enabled Emess to introduce an employee share ownership plan that will be used to buy back preference shares.

When an employee option is due, instead of issuing new shares, the company's Esop will buy preference shares and convert them into ordinary shares. Emess is intending to lead up to £3m to the Esop.

Profits before tax and extraordinary items at Tenby for the 1991 year amounted to £2.1m. The consideration is based on 1992 trading profits which are expected to be about £2.7m.

Berisford losses at £22.3m as acquisitions are sought

By Maggie Urry

BERISFORD International, the commodities and property group that nearly went into receivership in 1990, is looking to expand once more through acquisitions.

The group announced annual results yesterday, showing a loss of £22.3m before tax, against a £20.5m deficit in the preceding year to September 30.

The company has tax losses of £365m in the US, £40m in the UK and £19m of advance corporation tax which can be recouped. The US losses can be used for up to 15 years but would vanish if Berisford were taken over.

Mr Alan Bowkett, who joined as chief executive at the start of the year, said he was now spending 75 per cent of his time looking to the future. Acquisitions would be funded by equity and borrowings.

Mr Bowkett said he was "working very hard" on a deal, and was "not afraid of debt". He was looking to buy in areas of industrial manufacturing and distribution, building products or food, and planned initially to buy in the UK. He wanted a company with "a sound product" and hoped for a friendly deal with the target's shareholders, if not

its management.

Mr Roy Hammond is to join Berisford as operations director in January. Mr Bowkett and Mr Hammond have worked together in two other companies. Mr Peter Butler, the finance director who has overseen repayment of £1.5bn of debt, is leaving in the new year.

Mr Bowkett said that all the group's problems had now been addressed and there were no more "black holes". All the off-balance sheet debt had been brought on balance sheet and he anticipated an unqualified auditors' report on the accounts.

At year-end net debt was £15m (£18.6m cash), but asset sales since then should give the company net cash by the new year. Early repayment of remaining term debt is planned which will leave the group with four banks, compared with 58 banks when it entered refinancing talks. Shareholders' funds at the year end were £84.6m and have stabilised at that level since then, Mr Bowkett said.

Turnover fell to £130.5m from £294.2m, reflecting disposals. Mr Bowkett said the ongoing business had sales of about £50m a year but central overheads, at about £5m a year, were high for the size

of business.

Pre-interest losses were £2.7m (profit £21.2m) and interest cost £900,000 (£19.6m). Exceptional items of £18.7m (£22.1m) included property write-downs of £16.3m. Extraordinary debits totalled £42.7m (credit £76.1m). There was a transfer from reserves of £67.1m (retained profit of £82.1m).

Losses per share were 4.9p (2.9p). The group is planning to consolidate its 10p shares into 50p shares to reduce the bid-offer spread and cut dealing costs.

COMMENT

Berisford's survival in any form is a remarkable achievement. But assessing its future as an investment is another matter. The share price of 18½p, down ½p yesterday, is close to net asset value of 17½p a share which, in the absence of profits and dividends, is probably about right. From here on the shares are highly speculative, depending on Mr Bowkett and his team picking a suitable first target and being able to attract investors to finance a large enough deal. If they succeed, and build on that achievement, the eventual prize will be the unlocking of the US tax losses. Not one for the faint hearted.

BTP hits £10m with help from purchases

By Jane Fuller

BTP, the specialty chemicals company, increased pre-tax profits by 15 per cent to £10.1m in the six months to September 30 with the help of contributions from two French acquisitions.

Mr Frank Buckley, chairman, said continental Europe accounted for 38 per cent of group sales compared with 24 per cent in the same period of last year. First-half turnover rose by 20 per cent to £99m.

The new adhesives companies joined the chemical division, adding about £700,000 to operating profit of £6.3m (£5.23m). The division had sales of £55m (£41.5m).

Most of the £6.3m capital spending went to the biocides division, which saw profits slip to £1.8m (£2.04m). Sales rose to £17.7m (£15.6m).

Mr Buckley said the most important growth trend lay in the switch from solvent-based to water-based materials, such as adhesives and paints. A new factory near Blackburn would next year start producing a bug-killing ingredient for the water-based products.

On the industrial side, the

mainly UK profits declined to £1.83m (£2.15m) on sales of £26.2m (£25.3m). About 70 per cent of the sales were accounted for by the fall-arrest, safety equipment business, which was still growing. Another part of the division was being sold.

A small amount of interest was received compared with £802,000 charges in the first half of last year. The £6.5m cash held in March turned into £767,000 net debt after a bulge in capital spending to build the new factory.

Earnings slipped to 6.96p (7.1p) but the interim dividend goes up to 3.25p (3.1p).

COMMENT

Nervousness about BTP's resilience caused the shares to underperform the market by more than 20 per cent since June. These results breathed relief into sentiment and the price gained 11p to close at 218p. The two thirds of sales outside the UK have limited recessionary damage so far, although the continental businesses are expected to face tougher conditions. Once again the group has integrated acquisitions well and next year the biocides factory promises to inject more organic growth. Annual pre-tax profit is forecast to rise from £18.2m to about £21m, although earnings would do well to top last year's 14.81p - leaving this line a bit droopy since 1990-91. While a prospective multiple of 15 looks fair, there may be a bit more post-results applause. On a longer time scale, the company has a neat trick of converting froth into paper for acquisitions. With a smooth hand-over under way between Mr Buckley and his heir apparent, there seems little to unsettle the BTP fan club.

Charter slips to £37.1m

By Angus Foster

CHARTER Consolidated, the industrial holding company in which Minorco, the investment vehicle of Anglo-American, holds 36 per cent, announced a slight fall in profits due to lower interest earnings.

Pre-tax profits fell from £38.5m to £37.1m in the six months to September 30. A seasonal cash outflow, and lower interest rates, cut Charter's net interest receivable by £2.5m to £5.8m as net cash fell £20m to £122m.

Turnover increased 4.3 per cent to £805.7m, helped by growth in the rail track equipment and building services divisions. Operating profits increased from £30.2m to £31.3m.

Pandrol International, which makes rail fasteners and track maintenance equipment, recorded operating profits of £8.7m (£8.6m).

Cape, the building products and services division, increased turnover 31 per cent to £127.9m but operating profits were unchanged at £6.4m.

Mining equipment reported unchanged profits of £2m while quarrying and mining increased profits slightly to £1.8m (£1.6m).

Johnson Matthey, the metals company in which Charter owns 36.4 per cent, increased its contribution to £12.7m (£12.5m).

Mr Nigel Robson, finance director, said capital expenditure increased from £5m to £11.8m. High average exchange rates, especially for the dollar, cost the company £175,000. There was an extraordinary profit of £1.4m on the write-back of prior-year provisions against an overseas investment. Mr Robson said.

Earnings fell to 21.8p (22.4p). The interim dividend is maintained at 7p.

DIVIDENDS ANNOUNCED

	Current payment	Date of payment	Corres - pending dividend	Total for year	Total last year
Alkermes	5.6	Jan 20	3.6	-	7.6
Avoco	nil	-	0.5	-	0.5
Boged A	0.2	Feb 3	0.2	-	0.7
BTP	3.25	Feb 11	3.1	-	6.85
Campbell/Armet's	nil	-	1	-	2
Carlton Comm	10.3	Apr 6	9.4	17	15.5
Charter Cons	7	Jan 18	7	-	21.5
Chiltern Radio	nil	-	1	nil	2
East Mid Elect	5.72	Mar 24	5.1	-	17.1
Eurocopy	0.5	Apr 6	2.9	1.6	4
Manfield Brew	4.4	Jan 8	-	-	13.6
M&O Second Dual	13.19	Jan 8	13.19	-	23.66
Saleland	0.06	Mar 16	0.14	-	0.28
Sage	6	Feb 26	5.35	9.02	8.05
Siebe	3.2275	Apr 1	3.025	-	9.075
Surge	5.5	Apr 6	11	8.25	16.5
Umsco S	0.75	Feb 16	0.75	-	1.75
Vaux	6.1	Feb 16	6.1	6.35	9.2
Whitecroft	nil	-	3.3	-	4

Dividends shown pence per share net except where otherwise stated. (C) On increased capital. *Equivalent after allowing for script issue. (USM) stock.

CHASE is particularly pleased to have won three Euromoney awards this year for excellence in swaps, global custody and underwriting emerging market debt.

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We matched our customers' needs with our inherent strengths and built our business in Europe on four areas: transaction and information services (InfoServ), corporate finance, risk management and private banking.

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COMMODITIES AND AGRICULTURE

MIM cuts zinc output at Queensland mine

by Bruce Jacques in Sydney

MIM Holdings, the Australian miner, has responded to sick world metals markets with cuts to zinc and lead production at its Mount Isa-Hilltop complex in Queensland.

The managing director of MIM, Mr Norman Fussell, said the company would reduce output of zinc-lead ore by 15 per cent and the concentration at the Hilltop mine would switch to processing stockpiled copper converter slag.

"The decision to curtail zinc-lead mining acknowledges the developing weakness in world markets for those metals, aggravated by exports from former Soviet bloc countries," Mr Fussell said.

MIM is the second big Australian mining company to announce production cuts this month. Earlier, Western Mining Corporation said it planned changes at both its Kambalda and Leinster nickel operations, but did not spell out the exact

ZINC PRICES rose initially on the London Metal Exchange yesterday to reach \$1,114 a tonne at one stage before traders reconsidered the news from MIM and recognised that the production cuts would not be substantial.

Sentiment was also affected by a rise of 15,000 tonnes in LME warehouse zinc stocks following a rush of arrivals in Rotterdam. This took LME zinc stocks to a fresh peak of

effect on output. Mr Fussell said despite the cuts, zinc and lead would remain core businesses for MIM. "Market studies indicate that the long-term trend of growing demand for zinc and lead will resume after the recession and a window of opportunity in the market will arise about 1995-96," he said.

"Hence, the decision of MIM and its joint ventures to develop the McArthur River mine. We are confident that

the use of zinc will increase as an effective and economical anti-corrosion protector of steel and in other applications, while the future of lead will be linked to batteries, including the development of electric vehicles."

Hammersley Iron, the Australian iron ore miner, will reduce its workforce by 400 at its Pilbara operations in Western Australia because sales have been lower than expected since June.

in London during presentations by the Greenland government designed to encourage mining and oil companies to do more exploration.

Mr Lars Emil Johansen, premier of Greenland, a country nearly the size of the US but with a population of only 55,000, was particularly enthusiastic about a high-grade gold deposit at Nalunaaq in the Kiserpik Valley. This was discovered recently by Nunaoil A/S, a company jointly owned by Greenland and Denmark, and Mr Johansen said he hoped the find would support a gold mine which could be producing from 1995-97.

Microdiamonds have also been discovered in west Greenland and RTZ, the world's biggest mining company, is presently concentrating its exploration efforts in the country on diamonds.

Platinova - a junior exploration company, quoted in Toronto with mainly Canadian and European shareholders, has ordered a pre-feasibility study of the refinery project from both Sherritt Gordon and Hatch and Associates.

Mr Gannicott was speaking

pointed out that Greenland was only half the distance from the Canadian Arctic compared to Europe - an important consideration when the Canadian mines had such short shipping seasons.

Nuuk is on Greenland's south-west coast which is kept ice-free all year by the Gulf Stream. It offers regular, scheduled shipping services to Europe and North America and considerable excess capacity in ships leaving Greenland which could accommodate refined metal, Mr Gannicott pointed out.

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Government rejects Scottish milk merger

By James Buxton, Scottish Correspondent

THE government yesterday rejected a proposed takeover by the Scottish Milk Marketing Board of the Co-operative Wholesale Society's milk business in Scotland, following a recommendation by the Monopolies and Mergers Commission yesterday.

The MMC ruled that the combined entity would be more efficient but might abuse its large share of the Scottish market by giving preferential treatment to its own commercial operations and raising prices for both raw and processed milk.

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Caribbean gives Gummer mixed reaction to banana proposals

By Canute James

MR John Gummer, Britain's farm minister, made a hurried trip through the Caribbean at the weekend to try to mollify growing regional concern over new UK proposals for the marketing of bananas when the single European market is created next month.

In his wake, the reaction in the region was mixed, with expressions of hope that the new proposals would guarantee the market access which the Caribbean producers want, following indications that Britain will suggest the EC use tariffs instead of quotas for banana imports.

Mr Gummer's whirlwind visit, in which he met representatives of the Belize, Jamaica and Windward Islands banana industries in separate meetings over two days, was intended to explain the proposals which Britain, as the EC president, hopes to present to next week's meeting of the community's farm ministers.

A statement issued by the St Lucian government said the

Windward Islands were "satisfied" with the new British proposals which "addressed the concern of the Windward Islands and other Caribbean producers and met Europe's obligations enshrined in the Lome Convention, while not offending the terms of the GATT negotiations now approaching completion."

The meeting in St Lucia was attended by Mr John Compton, the prime minister of that island, and Dame Eugenia Dominica, prime minister of Dominica, and ministers from Grenada and St Vincent.

The statement said the Windward Islands were "satisfied" that the Gummer proposals represent a serious attempt to break the deadlock and provide a satisfactory solution to the banana problem.

Mr Marshall Hall, chairman of the Banana Export Company of Jamaica, said he would be surprised "if there is a change of direction on the banana policy at this late stage". He said that if this were so, Caribbean producers would insist that the provisions of the Lome Con-

vention be respected. The convention is a trade treaty between the EC and members of the African, Caribbean and Pacific (ACP) Group. The banana protocol of the convention says the EC will undertake to ensure that ACP banana exporters are left in no worse a position by changes in the market for the fruit.

"We have said to the British that it is clear nothing can be agreed by January 1, and that we therefore need a marketing regime which must be similar to the one in place now," said Mr Hall.

However, some industry representatives in the region say the "tariffification" of the market being proposed by Britain goes against earlier commitments that markets will be protected, and that this latest change will satisfy only the Latin American producers who have been arguing against the use of EC import quotas.

The minister told the House of Commons last week that the UK and France had planned "intermediate measures" to protect the exports of tradi-

tional suppliers; and that the UK was not tied to any one method but was instead "tied to an end".

The European Commission had earlier suggested the use of quotas to guarantee the market of the traditional suppliers of the ACP group. But Mr Gummer is reported to have told the Caribbean political leaders and banana industry officials in the meetings over the weekend that no agreement on the Commission's proposal was possible because quotas were not acceptable to several EC members, including Germany, Belgium and Denmark.

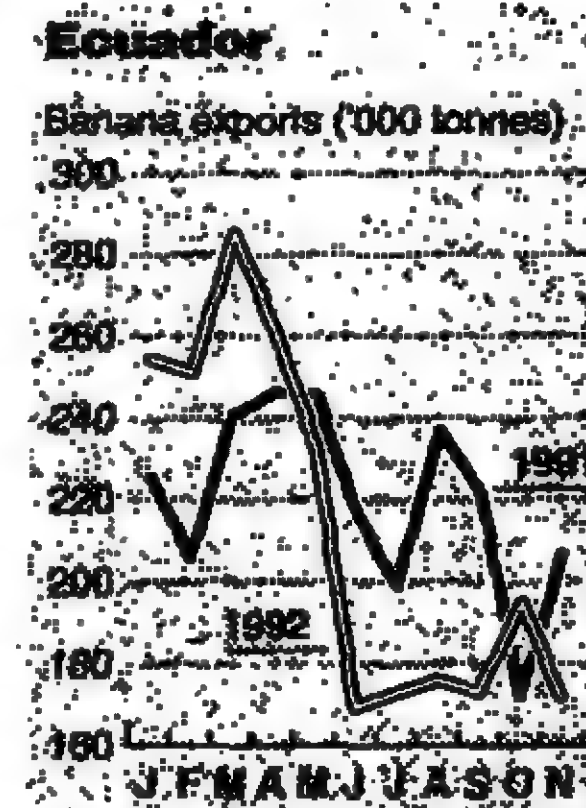
Mr Gummer also told the Caribbean producers that in light of an expected agreement between the US and the EC on trade in farm products, a GATT waiver to allow banana quotas would be difficult, and that a "GATT-compatible" agreement on bananas was needed.

There will be no solution to the problem by the January 1 deadline, the minister said, but the UK had devised a plan which would allow Caribbean and other ACP banana producers some protection after the European single market was entered.

There is reluctance in the region to give details of what Mr Gummer proposed in the meetings. The British minister is reported to have explained to the Caribbean leaders and the banana industry representatives that the new proposals which would see tariffs on ACP fruit, with country-specific tonnage being allocated for fruit from ACP producers and with agreed quantities to be imported from other sources, mainly from Latin American countries.

Caribbean representatives in the several meetings told Mr Gummer that they preferred the original European Commission proposals for the application of quotas, but that if this were not possible, then they would be comfortable only if the tonnages for Latin American fruit were low, and the tariffs to be applied were high.

European Community debates replacement of its present quota system for Latin American bananas. Exports to the EC make up over 40 per cent of Ecuador's overseas sales. The US market, Ecuador's largest, is already saturated.



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Greenland refinery proposed

By Kenneth Gooding

A \$300m ZINC refinery might be built in Greenland to process some of the raw material which at present is shipped from the Canadian Arctic to Europe for refining.

Substantial quantities of zinc concentrate are produced in the Canadian Arctic and the supply is expected to increase in 1997 with the start-up of Metall Mining's Isok Lake project in the Northwest Territories.

Greenland's refinery, which would employ about 350 people and be built near the capital, Nuuk, would use cheap electricity from a hydroelectric facility which is nearing completion and will be in full production next year.

Mr Robert Gannicott, president of Platinova A/S, the company behind the scheme,

pointed out that Greenland was only half the distance from the Canadian Arctic compared to Europe - an important consideration when the Canadian mines had such short shipping seasons.

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Indian sugar output to fall

By Kunal Bose in Calcutta

INDIAN sugar production is expected to fall to 11.5m tonnes in the 1992-93 season, compared to last year's record 13.4m tonnes, following a 30 per cent shortfall in the cane crop, according to the Indian Sugar Mills Association (ISMA).

Delayed monsoons in all cane-growing states and the failure of sugar factories to

clear cane hills of nearly Rs5bn (\$176m) forced growers to cut the area under the crop from last year's 3.5m hectares.

Since the current season has opened with stocks of 4.5m tonnes, total supplies will remain comfortable. The federal government has already sanctioned export of 375,000 tonnes of sugar, but has not yet agreed to create a buffer stock of up to 1m tonnes.

MINOR METALS PRICES

Prices from Metal Bulletin (last week's in brackets). ANTIMONY: European free market, 99.5 per cent, \$ per lb. in warehouse, 1,650-1,710 (1,680-1,720).

BISMUTH: European free market, 99.99 per cent, \$ per lb. in warehouse, 2,250-2,450 (same).

CADMIUM: European free market, 99.5 per cent, \$ per lb. in warehouse, 0.45-0.55

COBALT: European free market, 99.5 per cent, \$ per lb. in warehouse, 15.00-15.50 (15.00-15.50).

MERCURY: European free market, 99.99 per cent, \$ per 75 lb. flask, in warehouse, 120-140 (125-140).

MOLYBDENUM: European free market, drummed molybdenum trioxide, \$ per lb. Mo, in warehouse, 1.85-1.95 (1.90-2.00).

SELENIUM: European free market, 99.5 per cent, \$ per lb. in warehouse, 4.50-5.50 (same).

TUNGSTEN ORE: European free market, standard min. 65 per cent, \$ per tonne unit (10 kg) WO₃, in warehouse, 120-140 (125-140).

VANADIUM: European free market, 98 per cent, \$ a lb V₂O₅, cif. 1.75-1.85 (same).

Uranium: Nuxeo exchange value, \$ per lb. U₃O₈, 7.90 (8.00).

WORLD COMMODITIES PRICES

MARKET REPORT

London COCOA took a sudden dive on Friday as traders said funds were being liquidated after the morning with moderate losses, the market plunged after the New York March contract breached first \$1,000 and then \$980 in early trading. "A significant trend line was broken in London, precipitating the sell off here," said a commission house trader. "The fall was exaggerated by sell stops because there is no fundamental news out today." A London trader said that people had got "rather complacent really. We're going to need something quite

new to shake up some buying." New York arabica COFFEE prices were lower at midsession, but holding support after a rise in warehouse stocks. London's March robusta contract fell back below \$1,000 a tonne. "Both London and New York are looking to consolidate but London is running into more origin selling," one dealer said. Three-month NICKEL advanced further on the LME, but profit taking and chart selling were evident above \$6,000.

Compiled from Reuters

London Markets

SPOT MARKETS

Cruels oil (per barrel FOB) Jan + or -

Dubai \$15.85-0.05 -0.10

Brent Blend (Jan) \$15.85-0.15 -0.15

WTI (Jan) \$15.85-0.05 -0.15

Oil products

NWE prompt delivery per tonne CIF + or -

SUGAR - London FOB (\$ per tonne)

Raw Close Previous High/Low

May 195.00 195.00 194.20

White Close Previous High/Low

May 240.10 241.20 240.20

Turnover: Raw 65 (19) lots of 50 tonnes

White 727 (40) lots of 50 tonnes

COFFEE - London FOB (\$ per tonne)

Close Previous High/Low

Jan 984 990 995 981

May 990 995 995 981

Turnover: 100 (10) lots of 20 tonnes

COCAOA - London FOB (\$ per tonne)

Close Previous High/Low

POTATOES - London FOB (\$ per tonne)

Close Previous High/Low

Apr 62.5 62.5 62.5 62.5

May 62.5 62.5 62.5 62.5

Turnover: 100 (10) lots of 20 tonnes

SOYABEANS - London FOB (\$ per tonne)

Close Previous High/Low

CRUDE OIL - IPE (\$ per barrel)

Close Previous High/Low

Jan 18.01 18.24 18.21 17.99

Feb 17.95 18.18 18.24 17.97

Mar 17.85 18.12 18.20 17.97

Apr 18.12 18.12 18.12 18.03

May 18.12 18.12 18.12 18.03

CRUDE OIL - IPE (\$ per barrel)

Close Previous High/Low

Jan 18.01 18.24 18.21 17.99

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Hopes that the past few years' political and economic turbulence is over have been buoyed by early signs of business recovery and the conclusion of a North American free trade deal. But the future is not yet assured, writes Bernard Simon

Adjusting to realities

THERE are two ways of sizing up Canada as one of the more eventful years in its recent history draws to a close.

One view is that this is a country whose best years have passed; a society which has grown fat and lazy, and become so preoccupied with parochial squabbling that it has lost sight of the cut-throat world beyond its borders.

The other view is that Canadians have begun to sit up and take notice of the challenges facing them. They are anxious to put aside the constitutional wrangle of the past few years, and to get to grips with the economic problems which threaten their enviable standard of living. If this is true, Canada's best years could yet lie ahead.

Evidence abounds to support both scenarios. On the one hand, Quebec separatists, regional forces in western Canada and other special interest groups have been emboldened by the voters' decisive rejection in a referendum last October of a constitutional deal which was supported by almost all the country's mainstream politicians.

This political fragmentation could be reinforced in the next general election, which is likely to be called for the late summer or early autumn of 1993.

A strong showing by the separatist Bloc Quebecois and by the western-based Reform Party would deprive either of the two main parties, the Progressive Conservatives (who have been in office for the past eight years) or the Liberals, of a clear mandate. A minority government would probably be distracted from urgent economic and social issues by the political juggling needed to stay in office.

On the economic front, the world is no longer beating a path to Canada's door for raw materials. British Columbia's spruce and cedar forests may still be among the finest in the world, but buyers can find trees which grow much faster elsewhere these days, and are cut and processed by cheap, non-union labour.

Tough environmental laws and other forms of bureaucratic red tape have made Canada less attractive to mining companies than it used to be. The rich cod stocks on the Grand Banks of Newfoundland have all but disappeared. The productivity of Canadian workers has grown more slowly than in any other OECD country over the past decade. One in three pupils drops out of school, and there is widespread dissatisfaction with the quality of education and worker training.

To make matters worse, a decade of free-spending federal and provincial governments has left the public sector burdened by towering budget deficits and debilitating debt-service payments. The federal government, which keeps promising fiscal restraint, ended up with its second-biggest deficit ever in the year to March 1992.

But any effort to restore fiscal discipline must contend with growing public resistance to an already-heavy tax burden. At the same time, Canadians show little inclination to sacrifice the social security net and the panoply of services which make Canadians' lives so comfortable. Despite this long list of problems, the picture of Canada at the end of 1992 is not entirely gloomy. The very fact that six out of 10 provinces voted No to the Charlottetown constitutional deal (and a seventh, Ontario, which is the most powerful province, was almost evenly split), has raised hopes that the country may not be about to fall apart.

The bruising referendum campaign has left remarkably few scars. Most Canadians seem simply relieved that the divisive and arcane debate about the constitution has disappeared for the time being from the evening news.

Most crucially, the No side's victory may not have given the Quebec separatists as much of a boost as most political commentators predicted. Recent opinion polls show that support for independence is flagging in the francophone province. There is no question of Quebecers feeling betrayed by English-speaking Canada's rejection of the constitutional deal, as was the case when Manitoba and Newfoundland scuttled the Meech Lake accord in 1990.

While Quebecers made the Meech Lake agreement a litmus test of their acceptance by English Canada, some 56 per cent of them voted against the latest set of reforms. The referendum result also

does not appear to have done lasting political damage to Mr Robert Bourassa, Quebec's crafty premier. Mr Bourassa, often accused in the past of taking an ambivalent stand on sovereignty, came out unequivocally during the referendum campaign as a champion of a united Canada.

Meanwhile, two recent economic developments are forcing Canadian managers and workers to adjust to the realities of global competition. The first is the ultra-tight monetary policy followed by the Bank of Canada between 1988 and 1991. Soaring interest rates and a climbing Canadian dollar pushed the economy into an unexpectedly severe recession. That has brought inflation

down to an annual rate of slightly over 1 per cent, the lowest among the G7 nations. It has also squeezed the pipe of Canadian business, especially manufacturing.

One example: Dofasco and Stelco, the two biggest steelmakers, have piled up combined losses of \$1.3bn since 1990.

The second jolt has come from the US-Canada free trade agreement, now nearing its fourth anniversary. The provisions of the FTA are relatively modest in terms of lowering trade barriers. They centre on eliminating customs duties between the two countries by 1998 (most of which were already low) and guaranteeing US access to Canadian energy resources.

But coinciding with the unexpectedly severe recession, the FTA has given Canadian industry a shrill wake-up call. One company after another is freeing or rolling back wages, combining two or more small high-cost plants into a single efficient one, and searching for ways to reverse the long slide in worker productivity.

Mr John Crow, governor of the Bank of Canada, summed up the pluses and minuses of the economic shocks in a recent speech: "While in the short run, restructuring can act as a drag on demand, the future benefits of doing things smarter are enormous."

With the divisive referendum over and early signs of a business recovery now starting to

appear, the big question is which of the above, radically different views of Canada's future will turn out to be closer to the mark.

Judging by their recent performance, financial markets lean towards pessimism. Pressure on the Canadian dollar has been intense since early September. Despite constant intervention by the Bank of Canada and a steep rise in short-term interest rates, the currency tumbled from almost 83 US cents to less than 78 cents in less than three months.

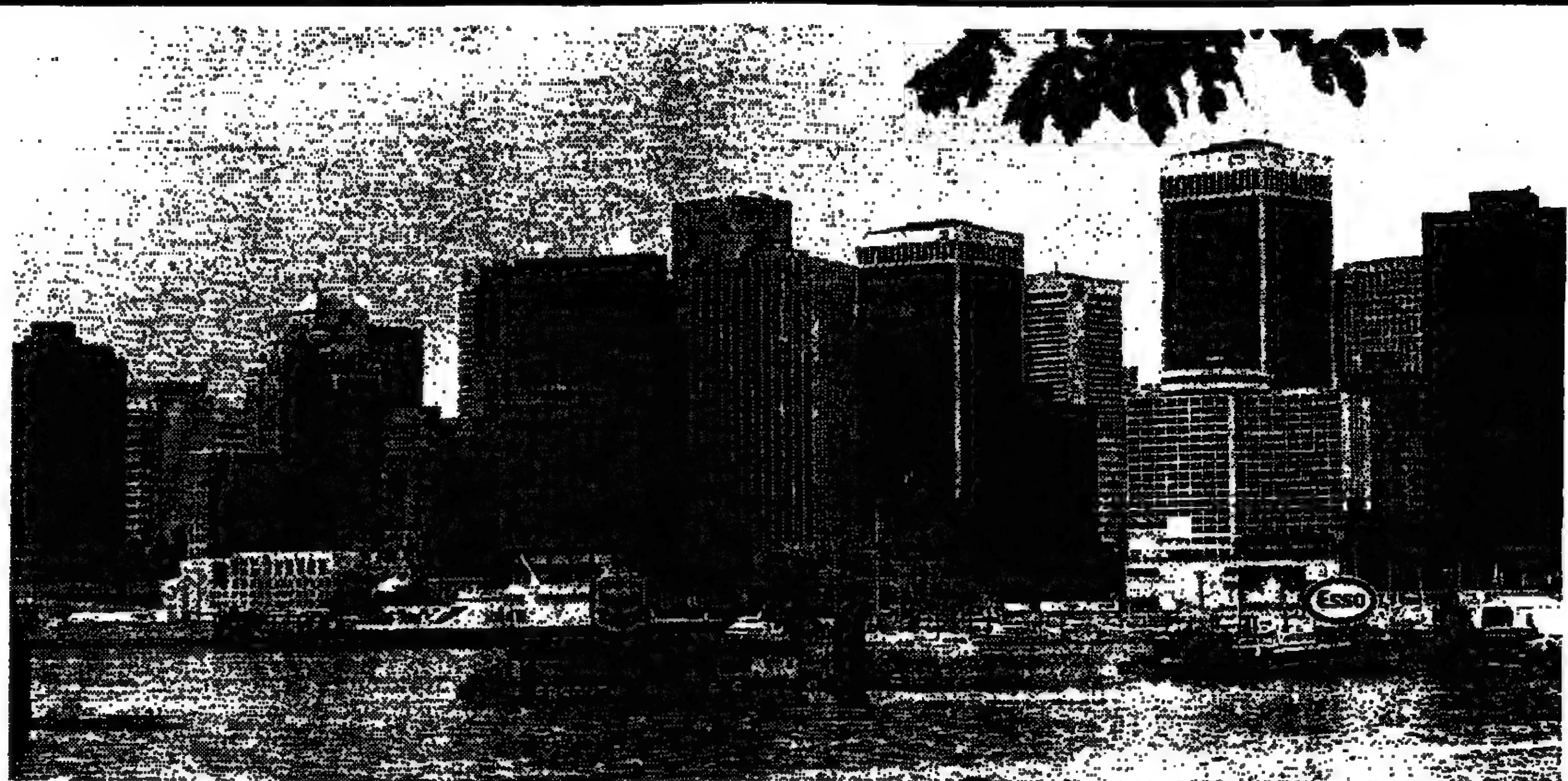
Standard and Poor's recently lowered its Triple-A credit rating on federal government agencies. Moreover, Ontario's bond rating has been cut twice

Inflation has fallen - but guiding the economy towards smooth recovery will not be easy

Plus: Weaknesses that hamper competitiveness The BCE stake in Mercury Key facts Page 2

The North American free trade agreement: there are some flies in the ointment but it is no longer such a hot potato Page 3

Quebec is marshalling its energies to restore its economic vitality Plus: protectionism rules in the provinces Food processor shaken up Map Page 4



The downtown area of Vancouver, the state capital of British Columbia

(photograph by Glyn Genn)

in the past two years. Canadian pension funds and other institutions are putting a growing proportion of their funds either into foreign markets or into Canadian companies, such as Seagram and Northern Telecom, with large foreign operations.

Next year's federal election could prove pivotal in assessing Canada's long-term prospects. The outcome at this stage is wide open.

The popularity of the Conservative government remains at rock-bottom. It is paying the price for presiding over the difficult times of the past few years and for Canadians' intense dislike of Mr Brian Mulroney, the prime minister.

Mr Mulroney remains confident however, that he can bounce back during 1993 as the economy starts to pick up, and Canadians appreciate the long-term wisdom of his party's policies.

The Tories have already indicated that, if re-elected, they plan to tackle some thorny

Continued on next page

Profile: ROBERT BOURASSA

Federalist fights on

"A BATTLE is over but the war continues", declared Mr Robert Bourassa, 59, as the Quebec premier conceded defeat in the October 26 referendum.

For Mr Bourassa, the war is the 30-year struggle to define an acceptable place for French-speaking Quebec within Canada and his own campaign to contain the forces of separatism.

Mr Bourassa, only 36 when he first became premier in April 1970, has been publicly derided by Mr Pierre Trudeau, the former federal prime minister, called a closet separatist by Anglophones, and accused of capitulation by Mr Jacques Parizeau, the Parti Québécois opposition leader.

Mr Robert Rae, the Ontario premier, called him a "master of ambiguity" as the Quebec leader played for time last July after the other nine provinces tabled their initial constitutional offer.

Mr Bourassa has at times dithered, bowed to federal pressure, mistaken timing and strategy, and violated his economic instincts in manoeuvring to hold the centre ground. But he is an extraordinary survivor and has won the grudging respect of his political enemies.

Mr Trudeau's use of the War Measures Act to quell the October crisis of 1970 fuelled separatist passions for a generation and led to Mr Bourassa's humiliation in 1976 by Mr René Lévesque and the Parti Québécois.

But Mr Bourassa engineered a remarkable comeback in 1985. He was re-elected in 1989, confident that he could lead Quebec into signing Canada's 1982 constitution. Those hopes died with the failure of the Meech Lake Accord in 1990.

If anything, Mr Bourassa's defence of federalism has become more passionate over the past year. He told voters squarely just before last October's referendum that Quebec could still achieve its economic and cultural aims best by remaining a part of Canada. There was nothing



Robert Bourassa: wants Quebec to remain part of Canada

ambiguous in his words. After studying at a Jesuit college in Montreal, Mr Bourassa took a law degree in 1956 and postgraduate degrees in political economy and international law at Oxford and Harvard.

He married into the wealthy Simard family. He worked as a tax specialist in Ottawa and Quebec City, and then was elected to the national assembly in 1966.

He spurned offers from the surging separatist movement and won the Quebec Liberal leadership early in 1970. Two months later, he defeated the old Union Nationale coalition on a platform for economic growth, and won again in 1973.

After his defeat three years later at the hands of the PQ, Mr Bourassa, frustrated and bitter, went to study the European Community and later taught in Europe and the US. But he kept in close touch with Quebec, and by 1983 was back as Quebec Liberal leader. He took his revenge on the PQ in 1985 and was re-elected with a two-thirds majority in 1988.

Mr Bourassa's passion is the craft of politics. His tenacity is legendary, but his consensus-seeking leadership is often bewildering. He dislikes broad visions and goals, preferring to explain the virtues of investment and stability.

He freely used the promise of the huge James Bay hydroelectric project to win at the polls in the 1970s. His 1985 tome "Power from the North" extolled the \$15-bn James Bay Phase II as a great export project ensuring Quebec's prosperity into the next century.

James Bay II has been delayed by New England's long recession and opposition from the Cree Indians. But Mr Bourassa says he will have the last word, "because hydro power is most economic and environmentally acceptable".

Slight in build and tutorial in manner, Mr Bourassa inspires respect but lacks charisma. He is uneasy on TV, yet friendly and relaxed in person-to-person meetings. Many Quebecers vote with their wallets and approve of his cautious approach.

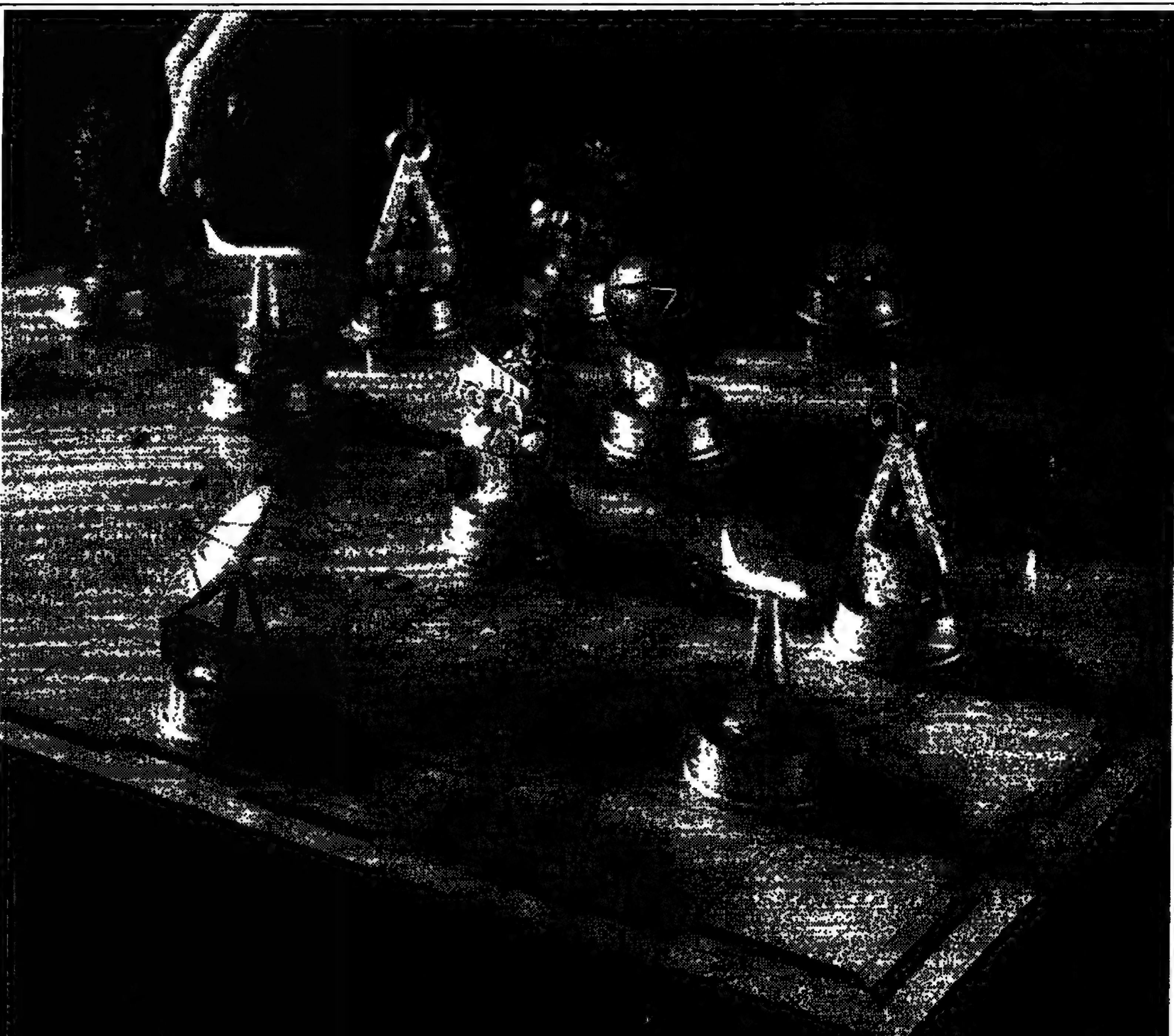
Rumination rather than rhetoric is his style. But Mr Bourassa springs to life in the national assembly, where he is known as a master of repartee, able to put down his critics with a contemptuous flip of the hand. He usually gets the better of Mr Jacques Parizeau, the PQ leader, who was PQ finance minister from 1976 to 1984 before becoming a popular University of Montreal economics professor.

For Mr Bourassa, the failure of Meech Lake in 1990 took a heavy toll. The accord would not only have recognised Quebec as a distinct society but, in his words, "would have given us more powers than I'd expected".

The No vote in this year's referendum has been far less of a setback. Senior ministers say Mr Bourassa will lead his troops again in the next election, which is expected to be called in 1994. The one question mark is his health following a brush with skin cancer two years ago.

He will try to show how Quebec can win more administrative and cultural "space" from Ottawa, picking his ground for the next constitutional battle with customary caution.

Bernard Simon



INVEST IN
THE FUTURE.
MAKE CANADA
YOUR NEXT
BUSINESS MOVE.

CONTACT THE
CANADIAN EMBASSY,
HIGH COMMISSION
OR CONSULATE GENERAL
NEAREST YOU.

INVESTISSEZ DANS
L'AVENIR.
FAITES VOTRE
PROCHAINE BONNE
AFFAIRE AU CANADA.

COMMUNIQUEZ AVEC
L'AMBASSADE DU CANADA,
LE HAUT-COMMISSARIAT
OU LE CONSULAT GENERAL LE
PLUS PRÈS DE CHEZ VOUS.

INVIERTA EN
EL FUTURO.
CANADA: UNA
SEDE COMERCIAL
IDEAL.

PONGASE EN CONTACTO CON
LA EMBAJADA, ALTO
COMISIONADO O CONSULADO
GENERAL CANADIENSES
MAS CERCANOS A SU RESIDENCIA.

Canada

CANADA 2

The upturn is expected to be slow, reports Bernard Simon

Bank governor is hero after fall in inflation

MR JOHN CROW, the Bank of Canada's forthright governor, has been transformed over the past two years from national villain to national hero. The villain was the man whose intransigence to contain budget deficits has cast a cloud over Canada's economic prospects.

In 1990-91, Mr Crow bore the brunt of complaints from business, trade unions and politicians that high interest rates and a soaring currency were ravaging the Canadian economy.

More recently however, the UK-raised, former IMF economist has been showered with compliments for squeezing Canada's inflation rate down to the lowest among G7 countries, forcing business to pay more attention to its productivity, and adroitly steering Canada through the turbulence on world currency markets.

Inflation, as measured by the consumer price index, has slowed to an annual rate of little more than 1 per cent, down from 5.6 per cent in 1991 and 4.8 per cent the previous year. This easily beats inflation targets set by the government in early 1991.

Local economists have nicknamed the central bank the "Bundesbank of the North". Mr Crow insisted in a recent speech that his highest priority remains monetary stability. "This goal is good for expectations, good for markets, good for savers and investors, and therefore good for sustained recovery in the Canadian economy," he said.

But guiding the economy towards a smooth, non-inflationary recovery will not be

easy. The success of monetary policy in recent years masks a disturbing deterioration in the state of Canada's public finances.

"The Bank of Canada has no antidote for fiscal problems in this country," says Mr Warren Jettin, Bank of Nova Scotia's chief economist.

Profligacy during the last boom, especially in Ontario, has been compounded during the recession by a slump in tax revenues and heavier demands for government services, especially social welfare and unemployment insurance.

Bank of Nova Scotia estimates that public sector deficits now amount to about 8 per cent of national income, among the highest in the G7.

The federal government has missed one deficit reduction target after another and will almost certainly fail to achieve this year's goal of a C\$27.5bn shortfall. The final outcome is

now expected to be closer to C\$33-34bn.

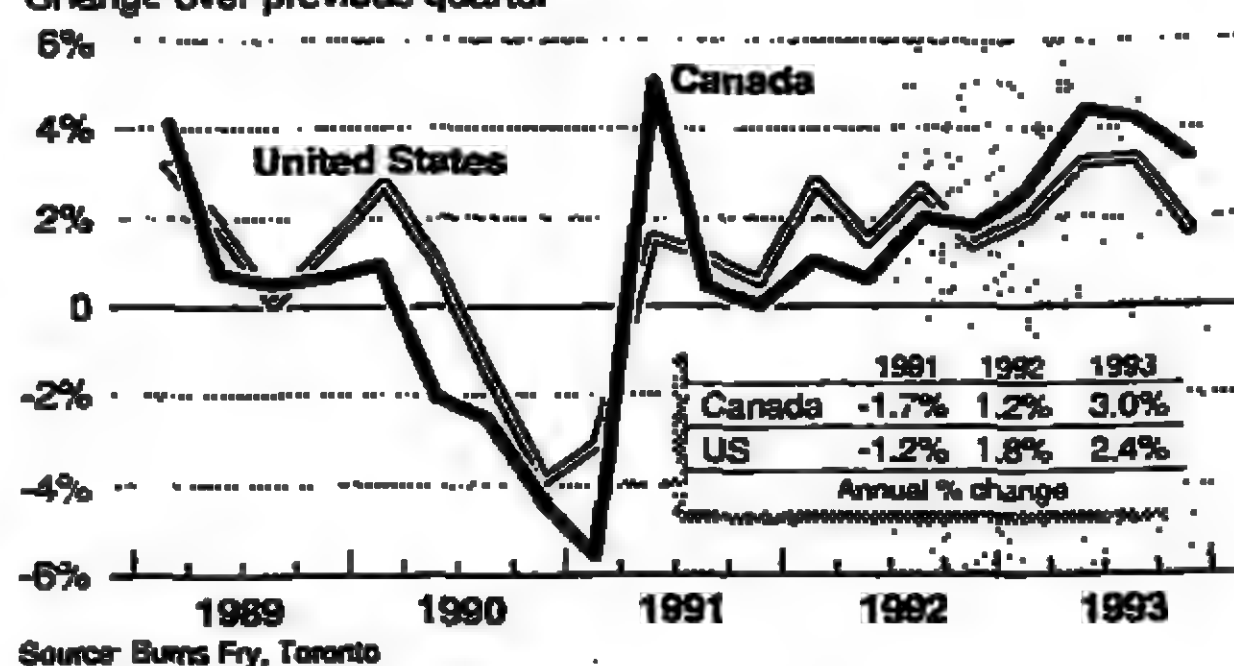
Provincial governments have held their fiscal reins even more loosely. According to Burns Fry, the Toronto securities firm, borrowing by the 10 provinces has surged from C\$17bn in the fiscal year to March 31 1988 to an estimated C\$33bn in 1992-93.

The provinces' combined borrowings overtook the federal government's for the first time last year. The public sector deficits have become a painful political headache.

Canadians are already heavily taxed. The uproar over the intro-

Real GDP

Change over previous quarter



Source: Burns Fry, Toronto

duction of a 7 per cent Goods and Services Tax two years ago and subsequent revolts against higher municipal rates are signs that taxpayers' tolerance is wearing thin. On the other hand, the scope for paring government spending in the depths of a recession is limited.

If anything, pressure is now building on Mr Brian Mulroney, the prime minister, to loosen the purse-strings, especially with the general election drawing near in 1993. Although interest rates have come down a long way from their mid-1990 peaks, they remain unusually high after factoring in the slide in inflation.

With policymakers having so little room for manoeuvre, economists are virtually unani-

mous that the upturn will be slow. Real growth in gross domestic product is expected to be around 1.5 per cent this year, compared to the 2.7 per cent forecast by Mr Donald Mazankowski, the finance min-

ister, in his budget last February. Next year's growth rate is unlikely to exceed about 3.5 per cent. The chances are slim that unemployment, currently at over 11 per cent, will return to single digits before late 1993.

The main engines for growth are expected to include exports, which will be spurred by the more favourable exchange rate and a recovery in the US; and housing, which will benefit from lower interest rates. Canada Mortgage and Housing Corp predicts that housing starts will rise to 179,000 units in 1993, from 166,000 this year.

The outlook varies widely from province to province. British Columbia, whose growth is compared by the business community to California in the 1950s and 1960s, is enjoying robust expansion as immigrants and investment stream in, and the forestry industry shows signs of revival.

Prospects in neighbouring Alberta depend largely on oil and gas prices and the international grain market.

At the other extreme of the country (and the growth spectrum), Newfoundland is struggling to cope with a moratorium on cod fishing. About one in five Newfoundlanders is out of work, and the province's economy has shrunk by about 2 per cent this year.

Ontario and Quebec, the two most industrialised provinces and among those hardest hit by the recession, are expected to mirror the national picture, emerging only slowly and fitfully from the slump of the past three years.

The yield on long-term government bonds stood at 8.5 per cent in mid-November, giving a "real" interest rate of over 7 per cent.

The Bank of Canada has indicated in recent months that it is willing to allow the Canadian dollar to slide a little faster to accommodate a further drop in interest rates. The currency fell below 79 US cents in mid-November for the first time in five years, down from almost 84 cents in early September. Burns Fry predicts that the dollar could slide as low as 75 US cents by the end of 1993.

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British Columbia enjoys robust expansion while Newfoundland struggles with a cod fishing ban

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KEY FACTS

Area: 9,220,970 sq km (second largest country in the world)
Population: 27 million (end-1991 estimate)
Head of state: Queen Elizabeth II, represented by a governor-general
Currency: Canadian Dollar (C\$)
Avg exchange rate: 1991 US\$1 = C\$1.1457; £1 = C\$2.0271
Exchange rate November 30 1992 US\$1 = C\$1.288; £1 = C\$1.9465

ECONOMY

	1991	Latest
Total GDP (US\$bn)	588.6	n.a.
Real GDP growth (%)	-1.7	1.6*
GDP per capita (US\$)	21,809	n.a.
Components of GDP (%)		
Private consumption	60.8	
Government consumption	20.8	
Exports	25.4	
Imports	25.4	
Consumer prices (% change pa)	5.6	1.6
Ind. wage rates (% change pa)	4.8	3.6
Ind. production (% change pa)	-4.1	0.9
Unemployment (% of lab force)	10.3	11.3
Reserves minus gold (US\$bn)	16.2	12.2
Narrow money growth (% pa)	3.5	2.9
Broad money growth (% pa)	7.8	5.8
Bank rate (% pa, end period)	7.67	8.82
Govt bond yield (% pa, avg)	8.11	8.06
FT-A index (% change over year)	+4.5	-8.0
Public external debt (US\$bn, Dec)	70.1	n.a.
Current account balance (US\$bn)	-25.5	-22.8
Exports (US\$bn)	127.5	n.a.
Imports (US\$bn)	121.5	n.a.
Trade balance (US\$bn)	5.9	n.a.
Main trading partners (1990, % by value)		
US	75.0	64.6
Japan	5.5	7.0
UK	2.4	3.5
Germany	1.6	2.8
EC	6.1	11.5

* = 1992 figures. (Wages, Industrial Production - August; Reserves - September; Consumer Prices, Unemployment, Money supply growth - October; Interest rates - 27/11/92; FT-A index - % change from 1/1/92 to 27/11/92)
* = EU estimates for 1992
Sources: IMF, World Bank, Datastream, Economist Intelligence Unit

Bernard Simon looks at the competitive weaknesses of the country's companies

Handicaps that are hard to overcome

THE slump in consumer demand and the longer jobless queues which have marked the present recession are arguably the least worrying part of Canada's economic problems.

While the business cycle is expected to turn gradually upward during 1993, Canadian companies will still be hobbled by more fundamental handicaps which, without corrective action, could keep living standards on the skids for years to come.

These structural weaknesses - which include inadequate research and development, poor worker training, adversarial industrial relations, high taxes and inter-provincial trade barriers - have come to be lumped under the heading of "competitiveness".

Professor Michael Porter of the Harvard Business School concluded in a report commissioned by the federal government last year that

evidence, ranging from a weak base in machinery exports to high foreign ownership of Canadian industry, points to "an economy that shows limited signs of upgrading, and suggests that productivity growth - the critical driver of prosperity - may be increasingly difficult to achieve."

Views along the same lines have been aired *ad nauseum* in recent years. But concerted action to correct Canada's competitive handicaps has so far proved elusive.

Dr Sylvia Ostry, chairman of the Centre for International Studies at the University of Toronto, noted in a recent speech that "there seems to be in this country virtually no

recognition in the general public and among many politicians of the need for a furnace to generate the 'warmth' for this kinder, gentler country to survive the wintry blasts of global competition."

Americans strive for excellence; Canadians put greater emphasis on equity and equality.

Mr Michael Bloom, a researcher at the Conference Board of Canada in Ottawa, puts some of the blame on a difference in attitude between Canadians and Americans. While Americans aggressively strive for excellence, their

northern neighbours put greater emphasis on equity and equality.

As Mr Bloom notes, Canada has no Harvard or Sorbonne among its universities. Instead, Ottawa and the provinces spend a large chunk of their budgets to ensure that uniform services, which meet "national standards", are accessible throughout the world's second biggest country.

Concern about Canada's eroding competitiveness is increasingly homing in on the country's schools and universities. At first glance, Canada should have one of the world's finest education systems. No government in the industrial

world spends more on a pupil's pre-matriculation education. Teachers' salaries are 40 per cent higher on average in Canada than the US.

But Statistics Canada has estimated that some 28 per cent of Canada-born people, aged 15-24, are functionally illiterate and over 40 per cent are innumerate. Canadian students come near the bottom of the list among OECD countries in science and mathematics skills. Enrolment in post-secondary engineering and applied science courses has tumbled since the mid-1980s.

The list of possible explanations for this poor record is a long one. Canadian universities have an ultra-short

academic year, with students normally starting classes in mid-September and writing their exams by the end of April.

School teachers enjoy the protection of a strong union. The municipality has six school boards, catering for French and English-speaking children

movement, while many university lecturers are coddled by a system of permanent tenure.

In any case, Mr Bloom notes that many teachers are forced to spend more of their time on the classroom these days on

social issues - such as AIDS and drugs counselling, and violence in schools - at the expense of the academic syllabus.

Concern for equity and equality can conflict with pursuit of excellence. For instance, the municipality of Ottawa-Carleton has six different school boards, catering for French-speaking and English-speaking children from Protestant and Catholic backgrounds. No fewer than four departments in the Ontario provincial government have responsibility for some aspect of education.

Among the top priorities of the education reform movement is a drive towards

national testing. The hope is that a comparison of the achievements of pupils from schools across the country will be a powerful spur to improving academic standards.

The provinces conducted a limited trial test of literacy and numeracy skills last June. The plan is to broaden the test to cover about 80,000 pupils at the end of the 1992/93 school year.

Sceptics question however, whether such products of negotiation and compromise are radical enough to give government, business and workers the jolt they need.

Canada's "best hope" of improving its competitiveness, they contend, is more likely to come from sharp external shocks, such as North American "free trade", or another crunch in the natural resource markets on which the country has always depended for growth in the past.

Profile: BCE

Mercury link may be only a start



Red Wilson: "closer to a company which had geographical reach"

LIMITED growth opportunities and stiffening competition at home are driving many Canadian companies to broaden their horizons. Among the most prominent is BCE, the Montreal-based telecommunications and financial services group.

BCE's latest foray abroad was its purchase in mid-November of a 20 per cent stake in Mercury Communications, Britain's second-biggest telephone company. As part of the deal, Cable & Wireless, Mercury's parent, is to become a partner in BCE's cable TV business in the UK.

"We were interested in getting closer to a company which had geographical reach," says Mr Red Wilson, BCE's president. "I see it as the beginning of an alliance where, we hope, C&W and ourselves are going to have a lot to do in common in the future."

BCE already has a sizeable international presence through its 53 per cent stake in Northern Telecom, the telecommunications equipment maker. Thanks largely to its acquisition last year of Britain's STC, Northern now makes more than a fifth of its sales outside North America.

BCE itself is part of a consortium which set up Clear Communications, New Zealand's second phone company; one of its executives is Clear's general manager. The Canadian com-

pany owns 49 per cent of a fledgling digital telephone network in Moscow, and a subsidiary has cellular franchises in Mexico City and New Delhi.

BCE's international thrust is driven by the limited opportunities on its home turf. It is already Canada's biggest public company, with annual revenues of about C\$20bn, and the only one to have posted net

earnings of more than a billion dollars a year. Its cash cow, wholly-owned Bell Canada, has a virtual monopoly on phone services to the 15m residents of Ontario and Quebec, and has stakes in several other provincial telephone companies.

Bell's dominance of the domestic market makes further expansion difficult within Canada. At the same time, regula-

tory barriers which have protected provincial phone utilities from competition are gradually being lowered.

A rival long-distance service is currently being set up and cut-price resellers are gaining an ever bigger share of corporate telephone business. Mr Wilson says that Bell is earmarking a growing slice of its resources to marketing.

Getting a toehold in the international telephone business has not been easy. BCE's US partner pulled out at the last minute of a bid for a stake in Telefonos de Mexico; a bid with Bell Atlantic (no relation to Bell Canada) in the privatisation of Venezuela's phone company was also unsuccessful.

BCE hopes the alliance with Cable & Wireless will give it the long-sought springboard into the international telephone business. The chairman and chief executives of the two companies plan to get together twice a year to explore opportunities.

They have yet to discuss specific joint ventures. But Mr Wilson says that both companies recognise that south-east Asia "is one part of the world where we can work together". A senior Bell Canada man is

to take over the reins of one of Mercury's divisions and Mr Wilson expects that half-a-dozen operating people will be seconded to Mercury at any one time. "We wanted to be sure we would be an active player in Mercury and not just an investor," he says.

BCE has laid the groundwork for its international telecoms thrust by rebranding from other businesses. It expects to raise about C\$650m before the end of the year as warrants on its remaining shares in TransCanada Pipelines are exercised. Another C\$142m came recently from the sale of two US telephone directory advertising firms.

A wholly-owned trust company, Montreal Trust, will probably end up as part of a larger financial institution.

BCE's problem child remains an ill-advised investment which it made in a large property developer in the mid-1980s. It wrote off its 67 per cent equity stake in BF Realty (previously known as BCE Development) three years ago, but continues to have a debt exposure of over C\$400m to the near-bankrupt company's principal subsidiary.

Bernard Simon

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Bernard Simon

MR. BELL DESERVES ALL THE CREDIT FOR BRINGING US CLOSER TOGETHER.

~~~~~

BCE Inc., a Canadian management holding corporation whose core businesses include Bell Canada, Northern Telecom, BCE Mobile and Bell-Northern Research, recently announced a major alliance with Cable & Wireless plc of the United Kingdom.

This transaction represents a major step in BCE's strategy of expanding our global interests in our core telecommunications business. And it will provide Mercury Communications Limited, a subsidiary of Cable & Wireless, with access to BCE's outstanding research and development facilities.

BCE Inc. is Canada's largest corporation in terms of assets, revenues and net income, and is listed on 13 stock exchanges, including London's. Through Northern Telecom, BCE Telecom International, Videotron Corporation Ltd. and Encom Cable TV & Telecommunications Ltd., BCE was already a significant investor in the UK. This transaction demonstrates BCE's continuing commitment to the UK market.

Isn't it remarkable that at about the same time this deal was struck, a famous inventor born in the UK, who while in Canada developed an idea that would bring people closer together, was inducted into the Canadian Science and Engineering Hall of Fame?





## CANADA 3

Will new foreign investors be wooed if old ones move away?

# There are some flies in the Nafta ointment

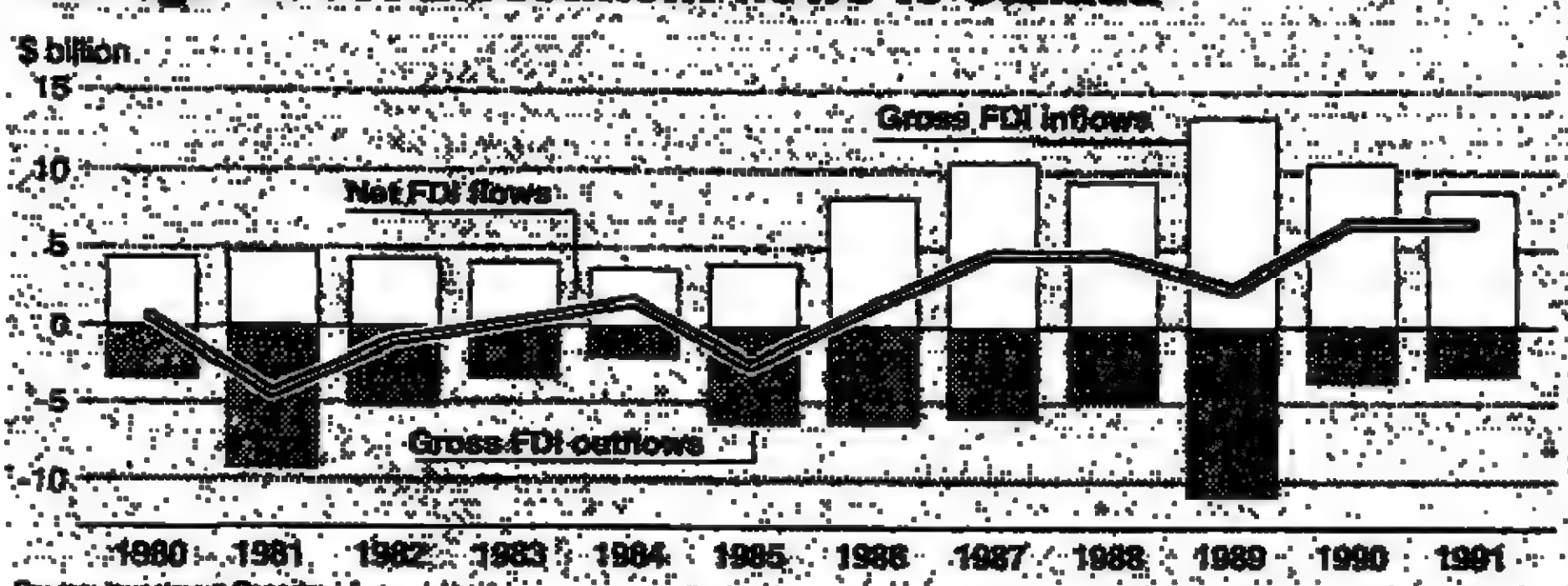
**A**S the drive towards an integrated North American market gathers pace, Canada's toughest challenge is to hang on to foreign investors with a presence north of the 49th Parallel, and at the same time attract new ones.

The elimination of customs duties under the 1989 US-Canada free trade agreement has led many US companies to look on Canada not as a foreign market with its own branch plants but as a part of their domestic operations. All too often, this has meant closing factories in Canada and serving Canadian customers from giant, low-cost plants south of the border.

The trilateral North American free trade agreement (Nafta), which is due to take effect in January 1994, will also pit Canada against Mexico in wooing new investment, especially from the US.

Professor Alan Rugman, of the University of Toronto's faculty of management, concluded in a recent paper that the terms of the Nafta bring only "modest actual gains in terms of a liberalisation of the North

Foreign Direct Investment flows to Canada



Source: Investment Canada

American investment regime". But as Prof Rugman put it, "American investors considering investments outside the US now have two countries to choose from which both ensure easy trade access to the US market."

Of the three countries, Canada has most to lose. It has a small, widely dispersed market, most of it within easy reach of US factories. High wages make it likely that labour-intensive industries would choose Mexico or the southern US.

Canadian business is also

burdened by high taxes. According to a recent OECD report, tax revenues have soared from 31.6 per cent of gross domestic product in 1980 to 39.4 per cent in 1991, higher than either Britain or Germany, and well above the US.

The Canadians are confident, however, that they have much to offer. Mrs Jean McCloskey, president of Investment Canada, the federal investment promotion and review agency, observes that the relatively high wages, taxes and other costs of operating in Canada do

not necessarily mean low profits.

Canada's advantages include a skilled workforce, first-rate infrastructure and a sophisticated market, not to mention the public health-care system for which a sizeable chunk of taxes is earmarked. The country's abundant natural resources continue to attract many companies. Several international mining groups, for instance, have recently joined a stampede for diamonds in the Northwest Territories. Foreign investors have also been active buyers of

oil and gas properties in western Canada.

But Canada's best hope for the future may lie in more sophisticated businesses. Investment Canada has targeted a handful of sectors, including computer software, hazardous waste, marine technology and optics. It is about to add medical devices, telecommunications and water treatment to the list.

The agency has identified about 700 Canadian companies in these fields which are interested in joining forces with a foreign partner. Recent successes include a decision by Ericsson, the Swedish telecommunications group, to locate its cellular software development centre in Montreal, in the face of competition from the company's US and Mexican subsidiaries. Plant Genetic Systems of Belgium plans to invest a total of \$10m in Saskatchewan to develop a strain 87.

**W**ith Canada's unemployment rate at over 11 per cent, foreign investors can expect a warm welcome from federal and provincial governments. Interest-free loans smoothed the way for both Ericsson and the UK's Rolls-Royce, which recently decided to produce an industrial version of one of its turbofan engines near Montreal.

Screening by Investment

Canada is now limited to direct purchases of businesses with assets of more than \$350m, or indirect acquisitions (those where ownership of a Canadian business changes as a result of the acquisition of its foreign parent) involving assets of more than \$50m.

Under the US-Canada free trade pact, however, the threshold for direct US investors has been raised to \$150m. Indirect acquisitions by US buyers are now usually exempt from review. Indeed, since its formation in 1985, Investment Canada has never

turned down a proposal. Nonetheless, foreign investors in some high-profile, politically sensitive sectors need a good deal of agility and patience if their plans are to come to fruition.

Foreign control in the "cultural" sector, which includes publishing, films, broadcasting and music, is especially frowned on. Public opinion - and thus political decision-making - is also sensitive to foreign involvement in financial services and airlines.

The recent experience of

Dallas-based American Airlines shows, however, that hard times have softened Canadian attitudes. American ran into stiff opposition from trade unions and politicians when it proposed earlier this year to buy 25 per cent (the maximum allowed by law) in Canadian Airlines International of Calgary. The opposition evaporated, however, when it became clear that the alternatives were either a costly merger for Canadian with Air Canada or bankruptcy.

In spite of the improved climate for foreign investment, there are some clouds on the horizon. One is a possible change of government after the federal election to be held next year.

The opposition Liberal party has yet to spell out a clear investment policy. Under Mr Pierre Trudeau, the former prime minister, the Liberals spearheaded a plethora of new curbs on foreigners in the 1970s and early 1980s.

A group of pragmatists within the party is pushing hard for a less nationalistic platform. Significant new restrictions are unlikely, at least in the early years of a Liberal government. But with Ottawa and the provinces facing growing budget deficits, higher taxes may be on the way, no matter which government is in office.

Bernard Simon

## Hundreds of barriers

**T**HE roughly 500 trade barriers which impede the movement of goods and services between Canada's 10 provinces range from the familiar to the obscure. They include:

- 10 marketing boards which control the production of eggs, chickens, turkeys and industrial milk;
- a plethora of provincial quality and product standards;
- varying regional and industrial assistance programmes;
- differing safety restrictions, weight and dimension requirements, licensing

procedures, and fuel and sales taxes for trucks;

- varying standards for trucks used to transport livestock;
- varying crop insurance and emergency crop pricing programmes;
- margarine colouring restrictions and blueberry maggot inspection procedures in Ontario;
- varying tax classifications of market garden and greenhouse operators;
- varying bee and honey equipment regulations.

Source: Legislative Research Service paper



The futuristic City Hall in Calgary, Alberta, dwarfs the original building, in the bottom left of the picture

(photograph: Glyn Gennin)

### COMMERCIAL TIES WITH THE US

## Free trade is no longer such a hot potato

**T**HE US-Canada free trade agreement (FTA), now nearing its fourth anniversary, has already had a profound impact on commercial ties between the world's two largest trading partners.

Measuring that impact with any degree of precision is impossible. The first three years of the FTA have coincided with a recession, volatile exchange rates and low commodity prices, all of which have also helped alter trade flows and investment strategies.

But a recent study by Toronto's CD Howe Institute concluded that "the facts so far are more consistent with the optimistic scenario of free trade supporters than with the views of detractors."

The supporters have taken heart from rising two-way trade, especially in products liberalised by the agreement, as well as many examples of new US investment in Canada.

Evidence of the FTA's popularity in the business community is the mountain of applications which have poured into Ottawa and Washington for two rounds of accelerated tariff cuts which have been negotiated since 1989 on two-way trade of some \$38bn a year. A third - and final - round will come into force early in 1993.

Critics of the FTA, chiefly the labour movement, point to hard-pressed Canadian industries, such as furniture, carpets, textiles and processed foods, which are struggling to compete against rising US imports.

The FTA has been blamed for a rash of plant closures in Canada. Some US companies have discovered that, without customs tariffs to consider, they can service the Canadian market more efficiently from plants south of the border. Some Canadian manufacturers, especially in the automotive parts industry, have also moved to the US.

One undisputed benefit of the 1989 pact, however, is its innovative dispute settlement mechanism. The new system of referring disagreements to binational review panels has

taken much of the political heat out of anti-dumping and countervailing duty issues.

Canadian trade officials are also convinced that the binding arbitration system has made the US Department of Commerce and International Trade Commission more careful in applying trade-remedy laws.

A total of 33 panels has been set up over the past three years, the bulk of them to review anti-dumping and countervailing duty cases involving products as diverse as softwood lumber, magnesium, pigs and paving machinery.

Canada's goals in the Nafta

negotiations were largely

expects to present enabling legislation to parliament in early 1993.

While public opinion in Canada remains lukewarm on free trade, the Nafta agreement is not as hot a political potato as the FTA was four years ago. The opposition Liberal party, which strongly opposed the FTA, has come around to much the same view as US President-elect Bill Clinton - that Nafta has flaws, but they are not so serious that the whole agreement should be ditched.

Canada's goals in the Nafta

negotiations were largely

**A relatively small number of Canadian exporters and investors will benefit from improved access to Mexico. Five key areas have been identified where Nafta differs from the earlier agreement**

Five of the panels, set up under Chapter 18 of the FTA, have dealt with intractable government-to-government disputes. They have included a Canadian challenge on the US interpretation of rules of origin for cars assembled in Canada, and a US complaint against Canadian landing rules for west coast salmon and herring. Two Chapter 18 cases, involving farm subsidies and UHT milk standards, are pending.

The next big step in US-Canada trade relations will be the expansion of free trade to Mexico under the North American free trade agreement (Nafta), which is due to come into force on January 1 1994. The Mulroney government

defensive. Only a relatively small number of Canadian exporters and investors will benefit from improved access to Mexico. Ottawa was more anxious to preserve (and if possible, improve on) gains made in the FTA, and to ensure that Canada would remain attractive as a springboard for investors into the North American market.

Canadian officials identify five key areas where Nafta differs from the FTA:

- clearer rules of origin, which the Canadians expect will avoid a repetition of the dispute earlier this year over Honda Civic cars made in Canada.

the extension for two years, to 1996, of duty drawbacks on inputs for motor vehicles made in Canada and then shipped to the US. Permanent duty drawback concessions will apply to products which are shipped from one Nafta country to another but do not meet North American rules of origin. Under Nafta, companies will be entitled to a refund of the customs duty on either the input or the finished product, whichever is lower.

■ liberalisation of cross-border transport. Under Nafta, trucks will be allowed to pick up loads in all three countries.

■ looser government procurement rules. Among the US business which will be opened to Canadian companies are services, construction and parastatals such as the US Army Corps of Engineers. Canadian officials estimate that Nafta opens as much as \$500bn of new US government business to Canadian bidders.

■ Expanded intellectual property rights, notably protection of patents and copyright in Mexico.

Despite the improvements, Nafta still leaves numerous gaps in commercial ties between the three countries. Subsidies and anti-dumping rules, which the FTA negotiators hoped would be resolved in the multilateral Uruguay Round, will remain contentious issues.

The Canadians are also nervous that many Mexican officials will find it difficult to adjust to the disciplines required by a detailed international trade agreement, especially one which overrides domestic laws.

Within Canada, pressure is likely to grow on Ottawa to provide more generous assistance to industries and workers hit by intensifying competition from US and now Mexican suppliers. The CD Howe Institute concluded that "the painful restructuring that has occurred in certain sectors under the FTA suggests that the issue of adjustment programmes should be revisited".

Bernard Simon



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## CANADA 4

Robert Gibbens on prospects for the country's only French-speaking province

## Quebec seeks to restore its vitality

WITH the constitutional referendum behind it, Quebec is marshalling all its energies in the hope of restoring the economic vitality of the 1980s.

Most voters in Canada's only French-speaking province are well satisfied that Quebec was among six provinces which voted No in the October referendum. But now they want the constitutional issue shelved, pending next year's federal election.

"I was very disappointed Canada did not grasp the opportunity to accept the Charlottetown package," says Mr Robert Bourassa, Quebec's premier. "But Quebec's 66 per cent No clearly was not a vote for independence - that's crucial. Everybody now agrees we must move on to other urgent matters and try to spur our lagging economy."

Quebec and Ontario, with two-thirds of Canada's 26.5m population and most of its manufacturing base, have been most severely affected by the recession. Sagging primary product prices, especially for forest products and metals, declining construction and lower protective tariffs have sharpened the pain for Quebec. Only recently have lower interest rates and a lower Canadian dollar brought relief.

Quebec's unemployment persists at an average 12.5 per cent, with pockets of 20 per cent in some areas. The property crisis rivals Ontario's and



"Montreal must become a great North American city again. We have a chance to break with the past"

we must create the new jobs in the high value-added sectors," says Mr Pierre Pettigrew, a management consultant helping companies to cope with the challenges of the 1990s.

"Government must become more competitive and entrepreneurial and help to find partners for Quebec's growth sectors in other provinces and abroad. Montreal must become a great North American city again. We have a chance to break with the past."

The government wants to use the \$42m Caisse de Depot, the investment arm for the Quebec Pension Plan, to speed the transition and foster growth. Other business groups, from the Desjardins financial services giant, the commercial banks and industry associations to Réseau du Capital de Risque, a group formed to expand channels for venture capital, are joining in.

The private sector is confident that many companies can compete globally, especially in the US. More than 70 per cent of Quebec's exports go to the US. Quebec's comparative advantage in some sectors can be used to foster foreign investment and exports, says Mr Charles Perrault, president of Schroder Investments Canada and a director of Northern Telecom.

A German-led consortium brought the US \$1bn Alouette aluminium smelter on stream at Sept Iles this summer on time and on budget. According to Mr Perrault, "the economics may rest on power and a year-round port, but it was the



young and well-educated workforce that made the smooth start-up possible. Quebec has come a long way in 30 years and education has dramatically changed the outlying regions."

The government plans improvements to industrial training, with the help of a new agreement with Ottawa. In the longer term, secondary education is to be revamped to adapt the workforce to the 1990s.

Mr Bourassa has promised a more competitive corporate tax burden, but business wants heavy cuts in the civil service to lower the high cost of government. Public ser-

vice, long a strong inflationary factor, has been capped, but business complains that the government has lost control of costs in the industrial health and safety system. These are horns

mainly by employers. Quebec has five or six competitive sectors with good growth prospects: aerospace and transport equipment, pharmaceuticals, telecommunications and information technology, power generation equipment, metals and food processing. The province is promoting these with research and development programmes, tax credits, loans and infrastructure projects. All draw heavily on greater Montreal's skilled manpower - the region contains half of Quebec's total population of 6.5m and has a full range of financial and legal services in French, English and several other languages.

The leaders include Bombardier, BCE, Merck Frost Canada, CAE Industries, Alstom,

Alcan Aluminium and Noranda, all international companies. Mr Gerard Tremblay, the industry minister, is also focusing on petrochemicals, textiles and clothing, pulp and paper, environmental products and some cultural industries, encouraging initiative from the regions.

Mr Jacques Parizeau, leader of the separatist Parti Quebecois, has attacked the government's ability to shape effective policies for recovery. Mr Parizeau, whose party is trying to capitalise on the No vote in the referendum, argues that the federal government retains too many levers.

He has promised a referendum on sovereignty if he can win the next provincial election, which is likely to be held in 1994. On the other hand, even the PQ knows that Quebec cannot isolate itself.

The language issue is confined to Montreal because of its pluralistic make-up. The government would like to ease a contentious ban on English-language exterior commercial signs late in 1993. But this will be done only if francophones, accounting for 75 per cent of the city's 3m population, feel secure that they will be able to continue to live and work in a French environment.

## Provincial and municipal deficits have swollen, taxes are up and services are down

retailing has been decimated. Provincial and municipal deficits have swollen in the past two years, taxes are up and services are down.

Signs of US recovery are encouraging, says Mr Bourassa, but he feels that any stimulus from the Clinton administration's economic policies will not be felt in Quebec before 1994. The pace of recovery may be slow.

Quebec urgently needs a stable dollar and lower interest rates to revive profits, encourage investment and create jobs, he says. It remains fully open to North America and the world for trade and investment.

The government is trying to forge a new partnership with business to meet the challenge of market globalisation, mobility of production and growing competition.

"Restructuring of Quebec's economy is in full swing and

## Theresa Byrne on doing business in Canada

## Protectionism rules in the provinces

CANADIANS still talk about the incident in Aymer, Quebec, in the mid-1980s.

A long muddy trench lay beside a road where workers had installed and then demolished a new brick pavement. There was nothing wrong with the sidewalk. But in Quebec, pavement materials must be made in Quebec - and the bricks for this pavement had come from Ontario.

The contractor was forced to rip up and replace the offending stones.

The Aymer story is still cited to illustrate the absurdities of doing business in Canada. At a time when barriers to international trade are being dismantled, Canadian industry continues to struggle with a plethora of inter-provincial trade barriers. Even the federal government fought unsuccessfully earlier this year to include a ban on provincial trade barriers in the constitutional reform package.

"What you're really talking about is how governments use their power," said Mr Robert Knox, director general of policy services in the department of industry, science and technology.

The provinces are barred from imposing customs, tariffs under Section 121 of the Constitution Act 1867, which says: "All articles of the Growth, Produce, or Manufacture of any one of the Provinces shall be admitted free into each of the other Provinces."

But non-tariff barriers have proliferated over the years. In a 1991 study, the Canadian Manufacturers' Association (CMA) lists a succession of barriers which hamper the free movement of goods, services and people. For example, a manufacturer of diesel buses was awarded a contract to supply vehicles to a Quebec

municipality, but only on condition that the Ontario production facilities be moved to Quebec. This duly happened, displacing several hundred Ontario workers.

Other obstacles to trade among the 10 provinces and two territories include provincial marketing boards, different licensing requirements for lawyers and doctors, and subsidies to attract investment.

The CMA estimated the provinces have erected about 500 such barriers at a cost to the economy of more than \$38bn a year. The CMA called for a progressive elimination of the barriers by 1993, but now accepts that the process will take much longer.

"Lack of political will, based

## Provinces are barred from imposing customs tariffs but non-tariff barriers proliferate

on people maintaining a very parochial and short-sighted attitude," has hindered progress, says Mr Stephen Van Houten, the association's president. Business leaders acknowledge that liberalising trade would result in plant closures and lost jobs in the short term. But they are confident that it would have substantial long-term benefits.

The issue of inter-provincial barriers has been tackled on and off since a Royal Commission on Dominion-Provincial Relations noted in 1940 that "it is probable that there is no single province so situated as to gain on balance by the existence of local protectionism in Canada".

A more recent thrust began in 1987, with the formation of a committee of federal and provincial ministers on internal trade. It was charged with

identifying barriers, and working with industry to reduce and remove them through negotiation and mediation.

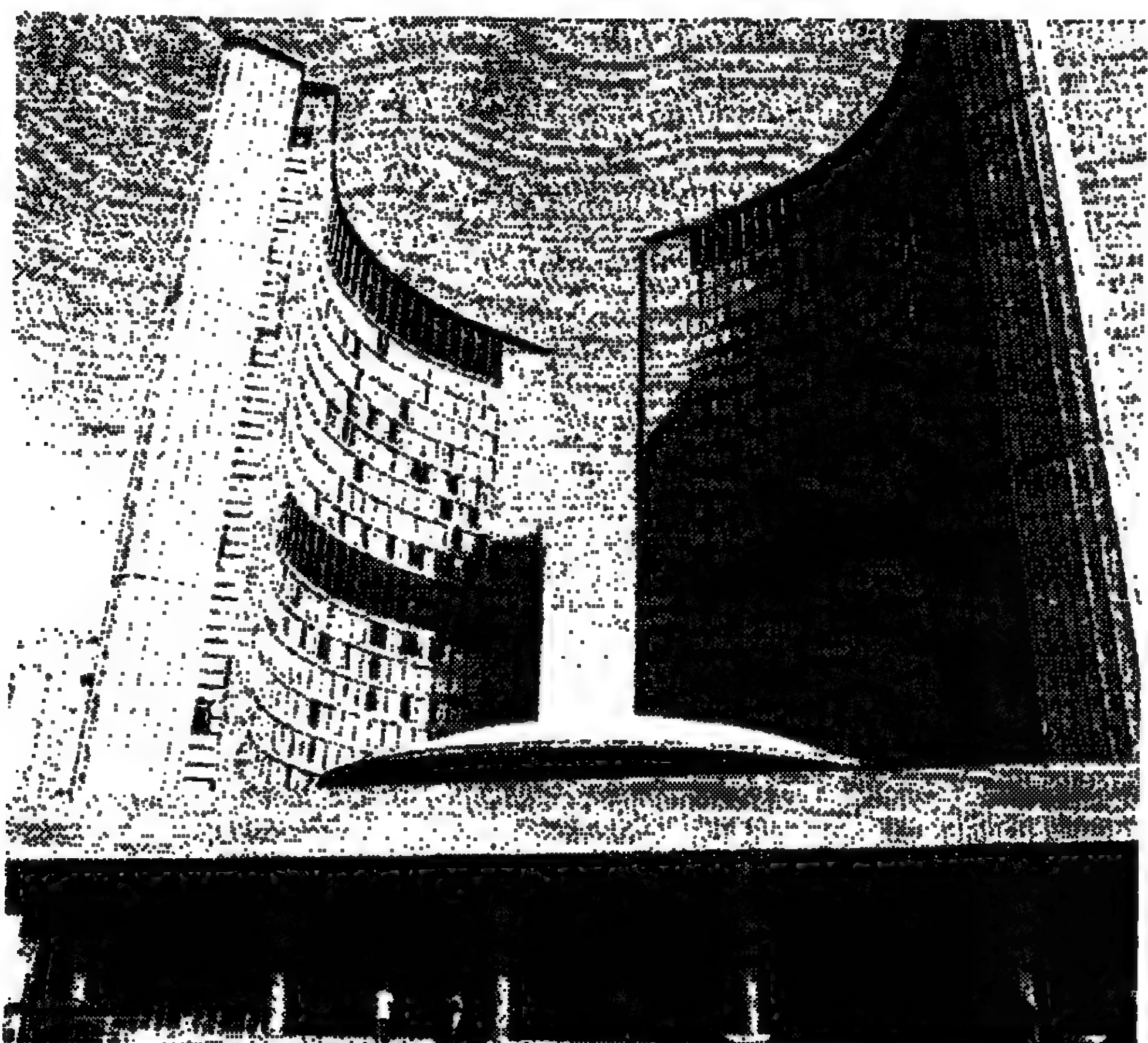
Initially, it set out to tackle three areas: government procurement, liquor marketing and transport regulation. A little progress has been made. In November 1991, all governments approved an agreement on government procurement which will eliminate preferential treatment on most purchases of more than \$25,000.

The new system, which is to be phased in by 1996, does not cover services or construction, nor does it include purchases for crown corporations, municipalities, schools and hospitals.

An agreement on beer was implemented earlier this year. Under the old rules, brewers could normally sell their beer only in provinces where it was brewed. In November 1992, agriculture ministers agreed to eliminate technical rules, such as different meat and vegetable grading standards. So many regulations are involved that eliminating them could take up to five years.

Newfoundland, Nova Scotia, New Brunswick and Prince Edward Island have agreed among themselves to allow companies from all four provinces to bid on most government contracts in the region. On a national level, the current priority is to bring down procurement barriers in services and construction.

But the provinces are now taking a different approach. Instead of trying to eliminate one barrier at a time, they are now devising a common set of standards and principles to which all provinces would adhere. In the meantime, Mr Van Houten plans to continue lobbying against the patchwork of barriers that remain. "Hope springs eternal," he says.



City Hall, Toronto

(photograph by Glyn Genie)

## Profile: MAPLE LEAF FOODS

## US joint venture

A CLEAR pattern runs through the shake-up which Hillsdown Holdings has given Maple Leaf Foods in the two and a half years since the British conglomerate bought control of Canada's biggest food processor.

"From day one in restructuring this business, we looked at it to be cost-competitive on a North American basis and not on a Canadian basis," says Mr Art Devlin, a senior vice-president who is the only senior manager to have survived Hillsdown's medicine.

Known as a lumbering corporate dinosaur in its former incarnation as Canada Packers, Maple Leaf is now blazing the trail which many other Canadian companies will have to follow if they are to survive and prosper in a more competitive environment.

In a strategy typical of many other industries, Maple Leaf's US competitors no longer treat Canada as part of their foreign operations but as an extension of their domestic market. The US food companies are stepping up their drive into Canada.

Imports of prepared meats and other products have risen markedly as tariff barriers are lowered under the 1989 US-Canada free trade agreement. As Mr Devlin puts it, "the economic borders are disappearing. We tend to think of our businesses now as geographic regions running north-south, rather than east-west."

Maple Leaf sold its dairy and edible oils businesses after realising that they were too small to go head-to-head against the giants of the North American industry. Beef slaughtering became less attractive when Carill put up a huge new facility in Alberta, and the provincial government started propping up smaller,



Charles Bowen: expansion south of the 49th Parallel is a priority

inefficient producers. A large broom has been swept through Maple Leaf's remaining businesses - such as poultry, prepared meats, groceries, milling and baking. It has closed some plants, combined production at others and, in a few cases, made acquisitions to achieve economies of scale.

Stiffer competition and the recession have not left the company unscathed, however. Earnings per share from continuing operations edged up by a modest 5 per cent in the first six months of 1992. But the Canadian company is at least lean enough now to start holding its own against the US giants, not just in Canada, but also on their own turf.

Significantly, when Hillsdown picked a new chief executive officer for Maple Leaf last April, its choice was Mr Charles Bowen, who has spent much of his career with General Foods of the US. Mr Bowen's priorities include expansion south of the 49th Parallel.

Bernard Simon

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Borden & Elliot LLP  
1000-100 Avenue of the Americas  
New York, NY 10020-1000  
Tel: (212) 410-1000  
Fax: (212) 410-1001



## LONDON STOCK EXCHANGE

## Firm close after early loss reversed

By Terry Byland,  
UK Stock Market Editor

A SUDDEN revival of confidence in the UK stock market yesterday afternoon reversed early falls in share prices and put the market back on the bull track. A recovery in stock index futures provided the trigger for the upturn in equities but sentiment was also encouraged by favourable reports from US Purchasing Managers.

In early trading, a dull trend in the US dollar restrained the international blue chips and the FT-SE index edged by 8.8 points. But trading volume was very low in the first couple of hours of the trading session.

The turn came when the FT-SE index found support again and re-established a premium after the weakness of the past two sessions. Share prices quickly moved higher, and trading volume increased as ground was recaptured.

The market closed virtually at the day's best, with a gain of 15.3 taking the FT-SE index to 2,769.8. Some volume finally totalled 65m shares compared with 42.7m on Monday when retail or customer business fell away to only £87.6m; this retail figure represents a fall below the daily averages of around 11m recorded steadily since Britain quit the ERM in mid-September.

Traders commented that the market's volatility reflected its underlying confidence for the near term. While few strategists wanted to be drawn on prospects for favourable news from this morning's meeting at the Bundesbank - news that a press conference has been arranged failed to stir excitement - but there are still some hopes that domestic interest rates could be trimmed

by at least half a point before the end of the year. The best news of the day came from across the Atlantic, when the US National Association of Purchasing Management (NAPM), in its semi-annual economic report, said that the outlook for US retail sales was the brightest for three years. The past fortnight has seen the London market responding readily to indica-

tions of economic improvement in the US. By the close, the international markets were mostly firmer on the day, although, with the Dow Average down 1.90 in London hours, support from New York was very selective. One Far Eastern house active in London has urged clients to "Buy the Footsie, sell the Dow", adding that the UK is a likely switch for US equity investors

now that the near term currency depreciation of the dollar seems to be over. However, a poor exception among blue chips yesterday was ICI, still out of favour with the UK investment community.

A sharp cut in UK petrol prices by BP caused some surprise but strategists were unwilling to read too much into the move, in terms of benefit either for the consumer or industry in general.

Retail and store issues, regarded as the sector likely to show the first signs of benefit from economic recovery, continued to move ahead in modest trading. Brewery stocks were in better form.

But the best gains came in sectors which are deemed to have suffered over-severely as the stock market has slowed down over the past few sessions. Water stocks came in for renewed buying.

A staidier trend in the Hong Kong market helped those UK stocks which have been vulnerable to shocks from this direction.

## TRADING VOLUME IN MAJOR STOCKS

| Stock     | Volume | Change | Day's Range | Volume | Change | Day's Range | Volume | Change | Day's Range |
|-----------|--------|--------|-------------|--------|--------|-------------|--------|--------|-------------|
| AAV Group | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       |
| Admiral   | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       |
| Admiral   | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       |
| Admiral   | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       |
| Admiral   | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       |
| Admiral   | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       |
| Admiral   | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       |
| Admiral   | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       |
| Admiral   | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       |
| Admiral   | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       | 1,000  | +1.0   | 1.000       |

## Legals helped by US

A POSITIVE meeting on Monday evening between Legal & General (Legals), the insurance group, and Morgan Stanley, one of the most influential of the US investment banks, was the trigger for an outstanding performance by L & G shares.

The shares ended a busy session 14 higher at 423p, a rise of 3.4 per cent against a 0.6 per cent gain in the Footsie and a generally lacklustre showing by the rest of the insurance sector.

Morgan Stanley's insurance specialist, Mr Youssef Zial, said L & G had indicated that the domestic mortgage indemnity problems that have dogged L & G as well as other UK insurance groups had been addressed and that there was now some light at the end of the tunnel.

Mr Zial also said it was encouraging that L & G's market share in life and pensions had continued to pick up, rising from around 3% per cent in the first quarter of the year to 3.9 per cent by the third quarter, with a figure of 4.6 per cent now in prospect.

The US investment bank did not alter its profits expectations for L & G but emphasised the 12 per cent discount to net asset value and the possibility that the group may nudge up the final dividend.

**Forte doubts**  
Reversing its initially guarded support for Monday's

## NEW HIGHS AND LOWS FOR 1992

**NEW HIGHS** (1) Lloyds Bank, 1992, 1991, 1990, 1989, 1988, 1987, 1986, 1985, 1984, 1983, 1982, 1981, 1980, 1979, 1978, 1977, 1976, 1975, 1974, 1973, 1972, 1971, 1970, 1969, 1968, 1967, 1966, 1965, 1964, 1963, 1962, 1961, 1960, 1959, 1958, 1957, 1956, 1955, 1954, 1953, 1952, 1951, 1950, 1949, 1948, 1947, 1946, 1945, 1944, 1943, 1942, 1941, 1940, 1939, 1938, 1937, 1936, 1935, 1934, 1933, 1932, 1931, 1930, 1929, 1928, 1927, 1926, 1925, 1924, 1923, 1922, 1921, 1920, 1919, 1918, 1917, 1916, 1915, 1914, 1913, 1912, 1911, 1910, 1909, 1908, 1907, 1906, 1905, 1904, 1903, 1902, 1901, 1900, 1899, 1898, 1897, 1896, 1895, 1894, 1893, 1892, 1891, 1890, 1889, 1888, 1887, 1886, 1885, 1884, 1883, 1882, 1881, 1880, 1879, 1878, 1877, 1876, 1875, 1874, 1873, 1872, 1871, 1870, 1869, 1868, 1867, 1866, 1865, 1864, 1863, 1862, 1861, 1860, 1859, 1858, 1857, 1856, 1855, 1854, 1853, 1852, 1851, 1850, 1849, 1848, 1847, 1846, 1845, 1844, 1843, 1842, 1841, 1840, 1839, 1838, 1837, 1836, 1835, 1834, 1833, 1832, 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## INVESTMENT TRUSTS - Cont.

| Trust | Price | 1992 | 1991 | 1990 | 1989 | 1988 | 1987 | 1986 | 1985 | 1984 | 1983 | 1982 | 1981 | 1980 | 1979 | 1978 | 1977 | 1976 | 1975 | 1974 | 1973 | 1972 | 1971 | 1970 | 1969 | 1968 | 1967 | 1966 | 1965 | 1964 | 1963 | 1962 | 1961 | 1960 | 1959 | 1958 | 1957 | 1956 | 1955 | 1954 | 1953 | 1952 | 1951 | 1950 | 1949 | 1948 | 1947 | 1946 | 1945 | 1944 | 1943 | 1942 | 1941 | 1940 | 1939 | 1938 | 1937 | 1936 | 1935 | 1934 | 1933 | 1932 | 1931 | 1930 | 1929 | 1928 | 1927 | 1926 | 1925 | 1924 | 1923 | 1922 | 1921 | 1920 | 1919 | 1918 | 1917 | 1916 | 1915 | 1914 | 1913 | 1912 | 1911 | 1910 | 1909 | 1908 | 1907 | 1906 | 1905 | 1904 | 1903 | 1902 | 1901 | 1900 | 1899 | 1898 | 1897 | 1896 | 1895 | 1894 | 1893 | 1892 | 1891 | 1890 | 1889 | 1888 | 1887 | 1886 | 1885 | 1884 | 1883 | 1882 | 1881 | 1880 | 1879 | 1878 | 1877 | 1876 | 1875 | 1874 | 1873 | 1872 | 1871 | 1870 | 1869 | 1868 | 1867 | 1866 | 1865 | 1864 | 1863 | 1862 | 1861 | 1860 | 1859 | 1858 | 1857 | 1856 | 1855 | 1854 | 1853 | 1852 | 1851 | 1850 | 1849 | 1848 | 1847 | 1846 | 1845 | 1844 | 1843 | 1842 | 1841 | 1840 | 1839 | 1838 | 1837 | 1836 | 1835 | 1834 | 1833 | 1832 | 1831 | 1830 | 1829 | 1828 | 1827 | 1826 | 1825 | 1824 | 1823 | 1822 | 1821 | 1820 | 1819 | 1818 | 1817 | 1816 | 1815 | 1814 | 1813 | 1812 | 1811 | 1810 | 1809 | 1808 | 1807 | 1806 | 1805 | 1804 | 1803 | 1802 | 1801 | 1800 | 1799 | 1798 | 1797 | 1796 | 1795 | 1794 | 1793 | 1792 | 1791 | 1790 | 1789 | 1788 | 1787 | 1786 | 1785 | 1784 | 1783 | 1782 | 1781 | 1780 | 1779 | 1778 | 1777 | 1776 | 1775 | 1774 | 1773 | 1772 | 1771 | 1770 | 1769 | 1768 | 1767 | 1766 | 1765 | 1764 | 1763 | 1762 | 1761 | 1760 | 1759 | 1758 | 1757 | 1756 | 1755 | 1754 | 1753 | 1752 | 1751 | 1750 | 1749 | 1748 | 1747 | 1746 | 1745 | 1744 | 1743 | 1742 | 1741 | 1740 | 1739 | 1738 | 1737 | 1736 | 1735 | 1734 | 1733 | 1732 | 1731 | 1730 | 1729 | 1728 | 1727 | 1726 | 1725 | 1724 | 1723 | 1722 | 1721 | 1720 | 1719 | 1718 | 1717 | 1716 | 1715 | 1714 | 1713 | 1712 | 1711 | 1710 | 1709 | 1708 | 1707 | 1706 | 1705 | 1704 | 1703 | 1702 | 1701 | 1700 | 1699 | 1698 | 1697 | 1696 | 1695 | 1694 | 1693 | 1692 | 1691 | 1690 | 1689 | 1688 | 1687 | 1686 | 1685 | 1684 | 1683 | 1682 | 1681 | 1680 | 1679 | 1678 | 1677 | 1676 | 1675 | 1674 | 1673 | 1672 | 1671 | 1670 | 1669 | 1668 | 1667 | 1666 | 1665 | 1664 | 1663 | 1662 | 1661 | 1660 | 1659 | 1658 | 1657 | 1656 | 1655 | 1654 | 1653 | 1652 | 1651 | 1650 | 1649 | 1648 | 1647 | 1646 | 1645 | 1644 | 1643 | 1642 | 1641 | 1640 | 1639 | 1638 | 1637 | 1636 | 1635 | 1634 | 1633 | 1632 | 1631 | 1630 | 1629 | 1628 | 1627 | 1626 | 1625 | 1624 | 1623 | 1622 | 1621 | 1620 | 1619 | 1618 | 1617 | 1616 | 1615 | 1614 | 1613 | 1612 | 1611 | 1610 | 1609 | 1608 | 1607 | 1606 | 1605 | 1604 | 1603 | 1602 | 1601 | 1600 | 1599 | 1598 | 1597 | 1596 | 1595 | 1594 | 1593 | 1592 | 1591 | 1590 | 1589 | 1588 | 1587 | 1586 | 1585 | 1584 | 1583 | 1582 | 1581 | 1580 | 1579 | 1578 | 1577 | 1576 | 1575 | 1574 | 1573 | 1572 | 1571 | 1570 | 1569 | 1568 | 1567 | 1566 | 1565 | 1564 | 1563 | 1562 | 1561 | 1560 | 1559 | 1558 | 1557 | 1556 | 1555 | 1554 | 1553 | 1552 | 1551 | 1550 | 1549 | 1548 | 1547 | 1546 | 1545 | 1544 | 1543 | 1542 | 1541 | 1540 | 1539 | 1538 | 1537 | 1536 | 1535 | 1534 | 1533 | 1532 | 1531 | 1530 | 1529 | 1528 | 1527 | 1526 | 1525 | 1524 | 1523 | 1522 | 1521 | 1520 | 1519 | 1518 | 1517 | 1516 | 1515 | 1514 | 1513 | 1512 | 1511 | 1510 | 1509 | 1508 | 1507 | 1506 | 1505 | 1504 | 1503 | 1502 | 1501 | 1500 | 1499 | 1498 | 1497 | 1496 | 1495 | 1494 | 1493 | 1492 | 1491 | 1490 | 1489 | 1488 | 1487 | 1486 | 1485 | 1484 | 1483 | 1482 | 1481 | 1480 | 1479 | 1478 | 1477 | 1476 | 1475 | 1474 | 1473 | 1472 | 1471 | 1470 | 1469 | 1468 | 1467 | 1466 | 1465 | 1464 | 1463 | 1462 | 1461 | 1460 | 1459 | 1458 | 1457 | 1456 | 1455 | 1454 | 1453 | 1452 | 1451 | 1450 | 1449 | 1448 | 1447 | 1446 | 1445 | 1444 | 1443 | 1442 | 1441 | 1440 | 1439 | 1438 | 1437 | 1436 | 1435 | 1434 | 1433 | 1432 | 1431 | 1430 | 1429 | 1428 | 1427 | 1426 | 1425 | 1424 | 1423 | 1422 | 1421 | 1420 | 1419 | 1418 | 1417 | 1416 | 1415 | 1414 | 1413 | 1412 | 1411 | 1410 | 1409 | 1408 | 1407 | 1406 | 1405 | 1404 | 1403 | 1402 | 1401 | 1400 | 1399 | 1398 | 1397 | 1396 | 1395 | 1394 | 1393 | 1392 | 1391 | 1390 | 1389 | 1388 | 1387 | 1386 | 1385 | 1384 | 1383 | 1382 | 1381 | 1380 | 1379 | 1378 | 1377 | 1376 | 1375 | 1374 | 1373 | 1372 | 1371 | 1370 | 1369 | 1368 | 1367 | 1366 | 1365 | 1364 | 1363 | 1362 | 1361 | 1360 | 1359 | 1358 | 1357 | 1356 | 1355 | 1354 | 1353 | 1352 | 1351 | 1350 | 1349 | 1348 | 1347 | 1346 | 1345 | 1344 | 1343 | 1342 | 1341 | 1340 | 1339 | 1338 | 1337 | 1336 | 1335 | 1334 | 1333 | 1332 | 1331 | 1330 | 1329 | 1328 | 1327 | 1326 | 1325 | 1324 | 1323 | 1322 | 1321 | 1320 | 1319 | 1318 | 1317 | 1316 | 1315 | 1314 | 1313 | 1312 | 1311 | 1310 | 1309 | 1308 | 1307 | 1306 | 1305 | 1304 | 1303 | 1302 | 1301 | 1300 | 1299 | 1298 | 1297 | 1296 | 1295 | 1294 | 1293 | 1292 | 1291 | 1290 | 1289 | 1288 | 1287 | 1286 | 1285 | 1284 | 1283 | 1282 | 1281 | 1280 | 1279 | 1278 | 1277 | 1276 | 1275 | 1274 | 1273 | 1272 | 1271 | 1270 | 1269 | 1268 | 1267 | 1266 | 1265 | 1264 | 1263 | 1262 | 1261 | 1260 | 1259 | 1258 | 1257 | 1256 | 1255 | 1254 | 1253 | 1252 | 1251 | 1250 | 1249 | 1248 | 1247 | 1246 | 1245 | 1244 | 1243 | 1242 | 1241 | 1240 | 1239 | 1238 | 1237 | 1236 | 1235 | 1234 | 1233 | 1232 | 1231 | 1230 | 1229 | 1228 | 1227 | 1226 | 1225 | 1224 | 1223 | 1222 | 1221 | 1220 | 1219 | 1218 | 1217 | 1216 | 1215 | 1214 | 1213 | 1212 | 1211 | 1210 | 1209 | 1208 | 1207 | 1206 | 1205 | 1204 | 1203 | 1202 | 1201 | 1200 | 1199 | 1198 | 1197 | 1196 | 1195 | 1194 | 1193 | 1192 | 1191 | 1190 | 1189 | 1188 | 1187 | 1186 | 1185 | 1184 | 1183 | 1182 | 1181 | 1180 | 1179 | 1178 | 1177 | 1176 | 1175 | 1174 | 1173 | 1172 | 1171 | 1170 | 1169 | 1168 | 1167 | 1166 | 1165 | 1164 | 1163 | 1162 | 1161 | 1160 | 1159 | 1158 | 1157 | 1156 | 1155 | 1154 | 1153 | 1152 | 1151 | 1150 | 1149 | 1148 | 1147 | 1146 | 1145 | 1144 | 1143 | 1142 | 1141 | 1140 | 1139 | 1138 | 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| 993 | 992 | 991 | 990 | 989 | 988 | 987 | 986 | 985 | 984 | 983 | 982 | 981 | 980 | 979 | 978 | 977 | 976 | 975 | 974 | 973 | 972 | 971 | 970 | 969 | 968 | 967 | 966 | 965 | 964 | 963 | 962 | 961 | 960 | 959 | 958 | 957 | 956 | 955 | 954 | 953 | 952 | 951 | 950 | 949 | 948 | 947 | 946 | 945 | 944 | 943 | 942 | 941 | 940 | 939 | 938 | 937 | 936 | 935 | 934 | 933 | 932 | 931 | 930 | 929 | 928 | 927 | 926 | 925 | 924 | 923 | 922 | 921 | 920 | 919 | 918 | 917 | 916 | 915 | 914 | 913 | 912 | 911 | 910 | 909 | 908 | 907 | 906 | 905 | 904 | 903 | 902 | 901 | 900 | 899 | 898 | 897 | 896 | 895 | 894 | 893 | 892 | 891 | 890 | 889 | 888 | 887 | 886 | 885 | 884 | 883 | 882 | 881 | 880 | 879 | 878 | 877 | 876 | 875 | 874 | 873 | 872 | 871 | 870 | 869 | 868 | 867 | 866 | 865 | 864 | 863 | 862 | 861 | 860 | 859 | 858 | 857 | 856 | 855 | 854 | 853 | 852 | 851 | 850 | 849 | 848 | 847 | 846 | 845 | 844 | 843 | 842 | 841 | 840 | 839 | 838 | 837 | 836 | 835 | 834 | 833 | 832 | 831 | 830 | 829 | 828 | 827 | 826 | 825 | 824 | 823 | 822 | 821 | 820 | 819 | 818 | 817 | 816 | 815 | 814 | 813 | 812 | 811 | 810 | 809 | 808 | 807 | 806 | 805 | 804 | 803 | 802 | 801 | 800 | 799 | 798 | 797 | 796 | 795 | 794 | 793 | 792 | 791 | 790 | 789 | 788 | 787 | 786 | 785 | 784 | 783 | 782 | 781 | 780 | 779 | 778 | 777 | 776 | 775 | 774 | 773 | 772 | 771 | 770 | 769 | 768 | 767 | 766 | 765 | 764 | 763 | 762 | 761 | 760 | 759 | 758 | 757 | 756 | 755 | 754 | 753 | 752 | 751 | 750 | 749 | 748 | 747 | 746 | 745 | 744 | 743 | 742 | 741 | 740 | 739 | 738 | 737 | 736 | 735 | 734 | 733 | 732 | 731 | 730 | 729 | 728 | 727 | 726 | 725 | 724 | 723 | 722 | 721 | 720 | 719 | 718 | 717 | 716 | 715 | 714 | 713 | 712 | 711 | 710 | 709 | 708 | 707 | 706 | 705 | 704 | 703 | 702 | 701 | 700 | 699 | 698 | 697 | 696 | 695 | 694 | 693 | 692 | 691 | 690 | 689 | 688 | 687 | 686 | 685 | 684 | 683 | 682 | 681 | 680 | 679 | 678 | 677 | 676 | 675 | 674 | 673 | 672 | 671 | 670 | 669 | 668 | 667 | 666 | 665 | 664 | 663 | 662 | 661 | 660 | 659 | 658 | 657 | 656 | 655 | 654 | 653 | 652 | 651 | 650 | 649 | 648 | 647 | 646 | 645 | 644 | 643 | 642 | 641 | 640 | 639 | 638 | 637 | 636 | 635 | 634 | 633 | 632 | 631 | 630 | 629 | 628 | 627 | 626 | 625 | 624 | 623 | 622 | 621 | 620 | 619 | 618 | 617 | 616 | 615 | 614 | 613 | 612 | 611 | 610 | 609 | 608 | 607 | 606 | 605 | 604 | 603 | 602 | 601 | 600 | 599 |  |
|-------|-------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------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1. The first group of respondents (n = 10) was composed of students who had completed the course and were currently employed in the field of international business. These respondents were contacted via email and asked to participate in the study. The second group (n = 10) was composed of students who had completed the course and were currently employed in the field of international business. These respondents were contacted via email and asked to participate in the study. The third group (n = 10) was composed of students who had completed the course and were currently employed in the field of international business. These respondents were contacted via email and asked to participate in the study.



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## CURRENCIES, MONEY AND CAPITAL MARKETS

## FOREIGN EXCHANGES

## Dollar resists positive data

THE DOLLAR lost ground against a wide range of currencies yesterday despite recent positive economic news from the US. Meanwhile sterling performed very strongly against the dollar and continued its assault on the DM2.50 level which it tested last week, writes Peter John.

The US currency opened at DM1.5787, down from Friday's close. Foreign exchange dealers said that concentration on European currencies ahead of the EC summit in Edinburgh ensured that the dollar remained on the sidelines. Also, comments from the Bundesbank reaffirming commitment to current interest rates prompted some weakness.

Mr Mark Austin, an economist with the Hongkong Shanghai Bank said, "People have been holding long positions on the D-Mark which they have been closing up. There was also a story that a slightly stronger performance of the US economy would make Clinton less likely to make fiscal changes."

The dollar was further affected by heavy switching as investors moved into Swiss francs after Switzerland's rejection on Sunday of closer European ties in the European

Economic Area. The dollar closed nearly three pence below yesterday's D-Mark at DM1.5685 and bit Sfr1.4000, down from Sfr1.4335 previously. It was slightly weaker against the Yen.

The Swiss franc had suffered initially as the Swiss decision was considered poor for the Swiss economy and for Switzerland as an investment centre. However, the buyers who finally prevailed believed capital flows in no danger, and a 'no' vote Switzerland further away from any association with trouble in the ERM.

That "safe-haven" benefit came into play again as rumours surfaced that the French franc could be devalued. A press article saying that France was prepared to devalue its currency struck a chord with a number of dealers.

Despite a strong denial from the French finance ministry, the franc slipped to FF3.406

against the D-Mark.

Sterling continued to push against DM2.50. By the close of dealing in London the pound was at DM2.490 against DM2.4875. It also rose to \$1.5875 after hitting a peak of \$1.6020, some three cents above its opening.

Economists said the pound was still in favour for its isolation from the tension in the ERM rather than a fundamental recovery in the UK economy. However, it also received a boost from a higher than anticipated rise in consumer credit spending.

Slovenia's tender continued to strengthen against other currencies in former Yugoslavia in October, the anniversary of its introduction, figures from the newly-independent country's central bank show.

The tender, introduced at parity to the Yugoslav dinar on October 8 1991, advanced 17.85 per 100 dinars in October this year, the Bank of Slovenia said in its November bulletin.

## EMS EUROPEAN CURRENCY UNIT RATES

|                    | Unit  | Rate      | % Change | % Spread | Overnight |
|--------------------|-------|-----------|----------|----------|-----------|
| Portuguese Escudo  | 100   | 174.974   | -3.9     | 5.38     | 67        |
| Spanish Peseta     | 100   | 166.639   | -3.7     | 5.37     | 68        |
| Italian Lira       | 1,000 | 1,376.037 | -4.4     | 5.38     | 67        |
| French Franc       | 100   | 6.55957   | -4.4     | 5.38     | 67        |
| German Mark        | 100   | 1.93627   | -4.4     | 5.38     | 67        |
| Belgian Franc      | 100   | 36.36333  | -4.4     | 5.38     | 67        |
| Dutch Guilder      | 100   | 2.36363   | -4.4     | 5.38     | 67        |
| Austrian Schilling | 100   | 13.7603   | -4.4     | 5.38     | 67        |
| Swedish Krona      | 100   | 10.4656   | -4.4     | 5.38     | 67        |
| Norwegian Krone    | 100   | 4.75561   | -4.4     | 5.38     | 67        |
| Finland Mark       | 100   | 5.94573   | -4.4     | 5.38     | 67        |
| Irish Punt         | 100   | 0.787564  | -4.4     | 5.38     | 67        |
| Portuguese Escudo  | 100   | 174.974   | -3.9     | 5.38     | 67        |
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For central rates set by the European Commission. Currencies are in decimal relative to the pound. Percentages change for the dollar, a positive change denotes a weak currency. Overweight shows the rate between two groups. The percentage difference between the actual rate and the central rate is shown. The percentage difference between the actual rate and the central rate is shown. The percentage difference between the actual rate and the central rate is shown.

100% Sterling and Italian Lira supported from ERM. Adjustment calculated by Financial Times.

Forward premiums and discounts apply to the US dollar.

## STERLING INDEX

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|  | 1.983 | 2.026 | 2.018 | 2.025 | 2.040 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 2.019 | 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## NEW YORK STOCK EXCHANGE COMPOSITE PRICES



## NYSE COMPOSITE PRICES

[illegible]**NASDAQ NATIONAL MARKET**[illegible]



## AMERICA

## Dow falls back as investors take profits

## Wall Street

US shares traded in a narrow range as investors took profits after the recent gains, pulling secondary indices from their record highs, writes Patrick Barron in New York.

By 1 pm the Dow Jones Industrial Average was down 3.51 at 3,303.82, having spent the morning no more than a few points either side of Monday's close. The more broadly based Standard & Poor's 500 index fell 0.47 to 434.84, while the Amex composite slipped 0.82 to 383.57 and the Nasdaq composite fell 1.56 to 684.97, off its all-time high. Turnover on the NYSE was 140m shares by 1 pm, and declines outpaced rises by 885 to 748.

Enthusiasm was dampened in early trading by rumours that Germany might raise interest rates. Although economists do not believe the Bundesbank would raise rates, the rumours supported the view that German interest rates are not likely to fall in the near future.

Otherwise, trading was dominated by technical considerations in the absence of any domestic economic data. Traders felt that following recent gains, the market looked slightly overbought, and suggested that if the rally was to be sustained over the longer term, some selling and consolidation would be required

before prices moved higher again.

Boeing eased 3/4 to 34 1/4 in turnover of more than 1/2m shares amid growing concern that the aircraft manufacturer would be hit by industrial action following Monday night's vote by the Seattle Professional Engineering Employees Association to reject a three-year contract from Boeing. Talks were scheduled yesterday between management and unions.

IBM fell 3/4 to 385 in busy trading after Merrill Lynch, the brokerage house, warned that the computer maker might have to take additional charges in the fourth quarter.

Various big stocks reacted to some late earnings reports. HJ Heinz firmed 3/4 to 34 1/4 after announcing fiscal second quarter profits of \$154.2m, up from \$122.8m at the same stage a year ago. Deere & Co jumped 1 1/4 to 329 1/4 on news that the agricultural equipment manufacturer earned \$37.4m in the fourth quarter ended October 31, a substantial turnaround from the \$20.2m loss incurred at the same stage of 1991 (although that was affected by big restructuring charges).

Times Mirror fell 3/4 to 330 on news that it expected to face special charges against its fourth quarter earnings to cover costs related to restructuring at its Matthew Bender unit, a voluntary separation programme at the Los

Angeles Times, and changes in accounting procedures.

General Motors climbed 3/4 to 34 1/4 in turnover of 1.6m shares after Kilder, Peabody, the broker, reiterated its "buy" recommendation and said the stock was due for a significant upward move over the next few months.

## Canada

TORONTO stocks were slightly weaker at midday following some light losses on Wall Street, but traders said expectations of a sharp drop in the Bank of Canada's key rate later in the day buoyed up activity. The TSE 300 index fell 6.6 to 3,281.5 in volume of 28m shares valued at C\$244m. Declines outpaced advances by 259 to 219 with 308 unchanged.

## SOUTH AFRICA

INDUSTRIAL shares were sharply higher as demand hit a thin market. The overall index gained 41 to 3,261, on the back of a 62-point jump in the industrial index to 4,357. Anglo rose 2 1/2 to R91.35.

The gold index fell 6 to 858 as gold shares gave a muted reaction to a higher bullion price.

De Beers gained R1.65 to R29.55, slightly off its day's high, while Anglo moved up R2 to R91.35. Richemont went up 80 cents to R37.10 and JCI added R1.50 to R53.

## EUROPE

NEGATIVE announcements from the corporate sector upset German and French equities yesterday. Milan, Vienna, Madrid and Lisbon were closed for a religious holiday, writes Peter Markovits in Frankfurt.

FRANKFURT closed at its lowest level for nearly a month on the publication of disappointing 10-month results from Deutsche Bank. The DAX index fell 17.08 to 1,508.24 as turnover rose to DM4.1bn from DM3.9bn.

News late on Monday night that Northwest Airlines had cancelled a \$3.5m order with the Airbus consortium, which includes Daimler, down DM8.60 at DM532, also depressed sentiment. However, Mr Michael Geiger at County NatWest comments that the cancellation of the 74 aircraft represents only 4.5 per cent of the total order book and is therefore unlikely to have serious long-term consequences for the consortium.

Deutsche, the last of the big banks to release its figures, was not expected to turn in disappointing earnings but the 92 per cent decline was below many forecasts and the shares

## FT-SE Actuaries Share Indices

| December 8    |         | THE EUROPEAN SERIES |         |         |         |         |         |         |         |  |  |
|---------------|---------|---------------------|---------|---------|---------|---------|---------|---------|---------|--|--|
| Newly changed |         | Open                | 10.30   | 11.00   | 12.00   | 13.00   | 14.00   | 15.00   | Close   |  |  |
| FT-SE 100     | 1053.75 | 1051.18             | 1050.05 | 1048.99 | 1048.72 | 1050.00 | 1051.49 | 1051.12 | 1051.12 |  |  |
| FT-SE 250     | 1133.30 | 1132.80             | 1131.45 | 1132.05 | 1133.51 | 1135.21 | 1136.15 | 1136.04 | 1136.04 |  |  |
| December 7    |         | Open                | 10.30   | 11.00   | 12.00   | 13.00   | 14.00   | 15.00   | Close   |  |  |
| FT-SE 100     | 1056.02 | 1052.78             | 1053.17 | 1052.11 | 1052.71 | 1056.79 | 1056.79 | 1056.79 | 1056.79 |  |  |
| FT-SE 250     | 1137.52 | 1133.53             | 1133.00 | 1133.00 | 1136.00 | 1136.00 | 1136.00 | 1136.00 | 1136.00 |  |  |

Source: Reuters 1000 (200/1000) High/Low 100 - 1053.25, 200 - 1137.21, London 100 - 1048.00, 200 - 1136.04

dipped DM13.90 or 2 per cent to DM532.10. Commerzbank eased DM2.20 to DM241.60 and Dresdner was DM2.70 lower at DM350.80.

Dr Reinhard Fischer, head of German equities at Paribas in London, believes that that overall the banking sector still offers growth potential in 1993. He forecasts earnings growth of some 7 per cent for the banking sector next year, against a rise of 5 per cent for other constituent companies of the DAX index.

The engineering group Deutsche Babcock added DM2.30 to DM145.30 on news that earnings would rise in the 1991/92 year and that it hoped to resume

dividend payments next year.

PARIS was dragged down by Elf which dropped 4.1 per cent following its chairman's profit warning, published after the close on Monday. Elf, one of the most heavily weighted stocks in the CAC-40 index, closed at FF14.30, down from FF14.50, and the index fell 22.73 or 1.3 per cent to 1,765.88. Turnover was steady at FF1.9bn.

Other losers included Lyonnais des Eaux-Dumez, down FF1.07 or 3.4 per cent at FF48.20 on news that it would inject FF400m into its building subsidiary, Dumez. Dumez fell another FF1.00 or 4.5 per cent to FF47.20. The company's largest property investment group, shed FF1.20 to FF46.00 on news

Euro Disney jumped FF1.7 or 3 per cent to FF78.65. The stock has fallen to a record low recently and there were reports that the US broker had bought the shares aggressively yesterday morning as it closed out a bear position.

ZURICH closed firmer but below the day's highs as buying in the second round of trading was not sufficient to offset earlier profit-taking on a weaker dollar. The SMI added 7.7 to 1,962.2 after the day's high of 1,967.4.

Buying interest centred almost exclusively on blue chips, while second-tier shares were under selling pressure. Ciba rose 0.50 to SF2.50, topped the active list, followed by Roche PC, SF2.20 firmer at SF3.50. Schindler bearers fell SF1.50 to SF2.850.

AMSTERDAM saw further weakness in cyclical as the CBS Tendency index closed unchanged at 105.8. Among chemicals, DSM was FI 1.40 down at FI 80.50 and Akzo FI 1.00 lower at FI 124.70.

Rodamco, the company's largest property investment group, shed FI 1.20 to FI 46.00 on news

that its investment losses had widened in the first nine months.

STOCKHOLM rose further as the house took its cue from the advances on Wall Street. The A200 index rose 1.50 to 158.4, added 15.0 or 1.7 per cent to 866.4 in turnover of SEK579m after SEK451m.

The industrial group Inco-Active AB rose 0.50 to SEK1.50, added SEK1 to SEK3.00, and the forecast of improved profits in 1992. Volvo jumped SEK14 to SEK33.

The banking sector finished as the day's winner, up 8.8 per cent. S-E Banken rose SEK0.50 to SEK1.50 while Handelsbanken added SEK1 to SEK3.00.

OSLO fell 1.5 per cent in reaction to recent strong gains fuelled by speculation about a currency devaluation. The all-share index fell 6.88 to 369.53 in thin turnover of NKR183m.

Norsk Hydro closed NKR3.5 lower at NKR146.5 while Saga was down NKR1 at NKR65. HELSINKI closed higher for a third consecutive day and the HEX index rose 11.7 to 861.7.

## ASIA PACIFIC

## Nikkei gains on late institutional support

## Tokyo

DEALERS and investment trusts supported share prices late in the day and the Nikkei average gained marginally at the end of a quiet and cautious trading session, writes Emilio Terrazon in Tokyo.

The 225-issue index gained 74.73 to 17,281.85 after a low of 17,135.81 and a high of 17,332.70. The index fell during the first hour on small-lot profit-taking, but later reversed its course on buying by public funds and foreign investors.

Volume remained subdued at 180m shares against 140m. Advances led declines by 549 to 373 with 163 issues unchanged. The Topix index of all first section stocks gained 4.45 to 1,304.86 and in London the ISE/Nikkei 50 index rose 1.85 to 1,055.42.

Companies bought shares for employee stock ownership plans, while public funds gave support by placing buy orders just below market levels.

Most investors remained on the sidelines ahead of Friday's Bank of Japan's tankan, or quarterly survey of business sentiment. They were also waiting for a cabinet reshuffle, expected this weekend.

Meanwhile, Friday's settlement for futures and options December contracts is generally expected to have little impact on share prices. Mr Masa Sato at SG Warburg said that most of the large-lot futures players have already adjusted positions and there has been little trading in December options contract.

Large-capital, interest rate-sensitive stocks were sought on lower money market rates. Kawasaki Steel was the most active issue of the day, rising Y3 to Y292, and Mitsubishi Heavy gained Y3 to Y548.

Housing issues rose on reports that the government was considering implementing tax breaks for individuals who renovate houses. Dai-ichi gained Y35 to Y770 and Misawa Homes rose Y30 to Y1,070.

Konami, the video game maker, advanced Y370 to Y3,280. High-tech toy makers have recently been popular due

to high earnings growth prospects.

HONG KONG reversed an early 90-point fall, encouraged that yesterday's meeting of the Sino-British Joint Liaison Group went ahead. There had been fears that the Chinese would pull out of the talks following last week's disagreement between the two nations.

The Hang Seng index closed 10.61 higher at 5,022.36 in moderate turnover of HK\$2bn. Utilities were among the day's active issues: Hongkong Telecom rose 5 cents to HK\$8.50 and China Light was up 10 cents at HK\$30.

AUSTRALIA continued to benefit from a switching of funds out of Hong Kong, as institutional investors remained nervous about the longer-term prospects for the colony. Indian stock markets remained

closed because the unrest.

ASIA 200, News Corp, which saw an intraday high of AS\$2.12, closed up 30 cents at AS\$2.90.

TAIWAN's weighted index moved in a narrow range before closing 5.24 higher at 3,761.01 in turnover of T\$10.2bn.

Analysts said that sentiment remained positive ahead of the parliamentary elections later this month. The electric, financial and plastic sectors made minor gains, with China Steel up 20 cents at T\$6.30.

SINGAPORE's Straits Times Industrial Index added 6.10 to 1,434.09 as activity remained lacklustre. Losers included SIA Foreign and Jurong Shipyard, both down 10 cents at S\$16.30 and S\$7.65 respectively.

MANILA fell on profit-taking. The composite index lost 5.65 to 1,278.59 in combined turnover of P11m pesos. Philip-

pine National Bank lost 8 pesos to 320 pesos.

SEOUL rose for the first time in six days as the composite index advanced 9.40 to 625.61.

KUALA LUMPUR rose marginally in the absence of fresh corporate news. The composite index put on 0.37 to 855.33 in turnover of M\$238m. Bargain-hunting supported some stocks, including Tenaga, up 15 cents at M\$9.60 and Telekom, up 10 cents at M\$14.00.

NEW ZEALAND saw Fletcher Challenge continue to recover as its shares rose 8 cents to NZ\$2.90, helping to lift the NZSE-40 index 14.12 to 1,536.87. Turnover was moderate at NZ\$296m.

Carter Holt Harvey put on 6 cents to NZ\$2.84. Lion Nathan gained 1 cent to NZ\$3.91. Air New Zealand went against the trend with a 5-cent decline to NZ\$2.85.

## European shipbuilders face a brighter future

But recovery is still some way off, writes John Pitt

European shipbuilders have been hit hard this year by a combination of negative factors: a weak dollar, falling tanker rates and volatility in European financial markets over economic convergence.

However, some analysts believe that the sector may be reaching the bottom of the present cycle and forecast an upturn as the scrapping of older vessels accelerates over the next few years, thereby reducing the present surplus capacity.

Mr Ole Siorer, a transport analyst at County NatWest, says that the world's VLCC tanker fleet (Very Large Crude Carriers ranging from 200,000 to 300,000 dead weight tonnes) has "a heavily skewed age profile with some 50 per cent of the fleet built in the 1972-1976 period".

With a tanker having an average life of 20 years, Mr Siorer notes that "once scrapping commences the concentrated age profile will lead to a very rapid contraction of tonnage".

Kvaerner, Europe's largest shipbuilder and the fifth-largest in the world, has seen its free shares slip from a year's high of NKR228 (\$38) in January to a low of NKR117 in early September. The price has come back recently on the dollar's strength, closing at NKR135 yesterday.

However, some analysts believe that the group is in a good position to benefit from a turnaround in the sector. Its eight-month results were upset by heavy losses in its mechanical engineering unit, while the shipbuilding division, accounting for some 30 per cent of group sales, showed a healthy 46 per cent rise in profits to NKR494m.

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Mr Alex Magana, German analyst at Map Securities in London, forecasts that the group will resume dividend payments in 1993, coinciding with the company's centenary year, after a 16-year suspension.

However, the transport team at County NatWest is more cautious: while acknowledging that the shipbuilding order book is healthy, "high profitability is unlikely until the second half of the decade," it says, rating the stock as neutral over the long term.

at a price of around NKR180".

Bremer Vulkan, Germany's largest marine technology and shipbuilder, is forecast by some analysts to have the potential for a rapid growth in earnings following a strategy of reorganisation and cost-cutting. Its recent acquisition of the east German shipbuilder MTW is likely to increase its shipbuilding capacity by some 50 per cent.

The group has also been diversifying further into marine electronics and away from shipbuilding: the latter, which had accounted for 66 per cent of sales in 1992, had fallen 43 per cent by the end of 1991, and this trend is set to continue.

The group has been helped, as with most European shipbuilders, by government subsidies which are currently running at some DM30m-35m (\$19m-22m) year. It will also benefit from last month's announcement that subsidies to the German industry are to be virtually double next year.

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## FT-ACTUARIES WORLD INDICES

| Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries |                 |                |                      |           |          |                      |                    |                  |                 |                      |           |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|----------------|----------------------|-----------|----------|----------------------|--------------------|------------------|-----------------|----------------------|-----------|
| MONDAY DECEMBER 7 1992                                                                                                                                                               |                 |                |                      |           |          |                      |                    |                  |                 |                      |           |
| FRIDAY DECEMBER 4 1992                                                                                                                                                               |                 |                |                      |           |          |                      |                    |                  |                 |                      |           |
| DOLLAR INDEX                                                                                                                                                                         |                 |                |                      |           |          |                      |                    |                  |                 |                      |           |
| Year ago (1991)                                                                                                                                                                      |                 |                |                      |           |          |                      |                    |                  |                 |                      |           |
| Figures in parentheses show number of times of stock                                                                                                                                 |                 |                |                      |           |          |                      |                    |                  |                 |                      |           |
| NATIONAL AND REGIONAL MARKETS                                                                                                                                                        | US Dollar Index | Day's Change % | Pound Sterling Index | Yen Index | DM Index | Local Currency Index | Local % chg on day | Gross Div. Yield | US Dollar Index | Pound Sterling Index | Yen Index |
| Australia (66)                                                                                                                                                                       | 116.47          | +0.7           | 106.78               | 91.59     | 94.98    | 111.86               | +0.7               | 4.34             | 115.65          | 110.09               | 91.27     |
| Austria (19)                                                                                                                                                                         | 140.45          | +1.8           | 131.17               | 110.44    | 114.53   | 115.01               | +0.5               | 2.48             | 138.18          | 131.53               | 108.05    |
| Belgium (42)                                                                                                                                                                         | 136.83          | +1.1           | 127.80               | 107.43    | 111.41   | 109.34               | +0.0               | 5.63             | 135.11          | 128.62               | 105.82    |
| Canada (113)                                                                                                                                                                         | 114.28          | +0.2           | 108.70               | 89.28     | 93.19    | 105.83               | +0.1               | 3.22             | 114.11          | 108.92               | 90.05     |
| Denmark (34)                                                                                                                                                                         | 136.72          | +1.7           | 130.91               | 123.33    | 127.57   | 130.06               | +0.3               | 1.70             | 130.41          | 126.22               | 125.00    |
| Finland (15)                                                                                                                                                                         | 74.70           | +2.8           | 67.77                | 58.76     | 60.92    | 79.17                | +1.9               | 1.78             | 72.70           | 69.20                | 57.38     |
| France (99)                                                                                                                                                                          | 167.25          | +1.9           | 151.02               | 118.02    | 120.31   | 123.71               | +0.4               | 3.64             | 164.89          | 157.52               | 114.34    |
| Germany (94)                                                                                                                                                                         | 158.01          | +2.0           | 148.26               | 123.84    | 126.53   | 130.93               | +0.2               | 2.61             | 154.48          | 147.95               | 122.24    |
| Hong Kong (53)                                                                                                                                                                       | 207.87          | -1.8           | 194.13               | 163.45    | 169.51   | 206.88               | -1.8               | 4.35             | 211.64          | 201.46               | 167.02    |
| Ireland (16)                                                                                                                                                                         | 134.57          | +0.4           | 125.98               | 108.08    | 109.98   | 113.09               | +0.0               | 4.84             | 134.27          | 127.82               | 105.87    |
| Italy (77)                                                                                                                                                                           | 55.73           | +3.4           | 52.04                | 43.82     | 45.44    | 57.43                | +1.8               | 3.82             | 53.91           | 51.32                | 42.55     |
| Japan (172)                                                                                                                                                                          | 104.82          | +0.2           | 97.90                | 82.43     | 85.49    | 82.43                | -0.2               | 1.02             | 104.01          | 99.58                | 82.56     |
| Malaysia (69)                                                                                                                                                                        | 271.88          | -0.4           | 259.92               | 213.79    | 221.70   | 256.07               | -0.8               | 2.48             | 272.91          | 259.78               | 215.37    |
| Mexico (18)                                                                                                                                                                          | 1694.11         | +0.5           | 1482.77              | 1253.53   | 1293.94  | 1450.94              | +0.6               | 1.10             | 1588.36         | 1510.06              | 1261.55   |
| Netherlands (69)                                                                                                                                                                     | 154.94          | +1.9           | 144.70               | 121.83    | 125.35   | 124.71               | -0.2               | 4.56             | 152.06          | 144.74               | 120.00    |
| New Zealand (13)                                                                                                                                                                     | 42.20           | +0.3           | 39.41                | 33.19     | 34.42    | 43.21                | +0.5               | 5.38             | 42.32           | 40.28                | 33.40     |
| Norway (29)                                                                                                                                                                          | 146.83          | +1.7           | 138.93               | 117.02    | 122.18   | 130.61               | +0.4               | 1.85             | 144.02          | 137.55               | 122.35    |
| Singapore (38)                                                                                                                                                                       | 202.10          | +0.1           | 188.74               | 158.92    | 164.80   | 182.74               | -0.1               | 2.16             | 202.26          | 192.53               | 168.82    |
| South Africa (30)                                                                                                                                                                    | 152.82          | +0.4           | 142.53               | 120.01    | 124.45   | 156.80               | +0.1               | 3.27             | 151.99          | 144.88               | 119.94    |
| Spain (48)                                                                                                                                                                           | 118.15          | +0.8           | 108.48               | 91.34     | 94.72    | 100.05               | +0.0               | 6.01             | 115.44          | 109.89               | 91.11     |
| Sweden (31)                                                                                                                                                                          | 154.31          | +1.6           | 145.38               | 123.92    | 124.20   | 155.18               | +0.2               | 2.38             | 152.43          | 145.63               | 122.82    |
| Switzerland (60)                                                                                                                                                                     | 110.90          | +3.2           | 103.57               | 87.21     | 90.45    | 96.26                | +0.8               | 2.47             | 107.49          | 102.32               | 84.83     |
| United Kingdom (227)                                                                                                                                                                 | 174.18          | +1.8           | 162.67               | 138.95    | 142.02   | 162.67               | -0.1               | 4.56             | 171.04          | 162.61               | 134.37    |
| USA (522)                                                                                                                                                                            | 177.73          | +0.7           | 165.92               | 138.77    | 144.94   | 177.73               | +0.7               | 2.87             | 176.54          | 168.05               | 135.33    |
| Europe (779)                                                                                                                                                                         | 157.39          | +2.0           | 148.32               | 108.04    | 112.06   | 151.11               | -0.2               | 3.91             | 154.75          | 148.27               | 108.34    |
| Nordic (102)                                                                                                                                                                         | 151.07          | +1.8           | 141.06               | 118.79    | 123.19   | 135.70               | +0.6               | 2.19             | 148.44          | 141.30               | 117.15    |
| Pacific Basin (713)                                                                                                                                                                  | 108.85          | +0.1           | 101.85               | 85.60     | 88.77    | 87.34                | -0.2               | 1.38             | 107.83          | 103.80               | 85.81     |
| Euro-Pacific (1492)                                                                                                                                                                  | 120.40          | +1.0           | 112.45               | 94.87     | 98.18    | 100.90               | +0.0               | 2.55             | 119.26          | 112.52               | 94.11     |
| North America (251)                                                                                                                                                                  | 173.80          | +0.7           | 162.32               | 136.69    | 141.75   | 172.85               | +0.7               | 2.69             | 172.67          | 164.36               | 136.28    |
| Europe East (24)                                                                                                                                                                     | 121.48          | +0.2           | 112.45               | 94.87     | 98.18    | 100.90               | +0.0               | 2.55             | 119.26          | 112.52               | 94.11     |
| Asia (241)                                                                                                                                                                           | 148.42          | -0.5           | 138.61               | 117.33    | 121.04   | 135.81               | -0.5               | 3.90             | 148.18          | 142.17               | 115.73    |
| World Ex. UK (163)                                                                                                                                                                   | 121.48          | -0.9           | 113.43               | 95.52     | 99.05    | 102.96               | -0.9               | 2.87             | 120.35          | 114.59               | 94.95     |
| World Ex. Japan (251)                                                                                                                                                                | 139.51          | +0.8           | 130.29               | 109.71    | 113.77   | 125.66               | +0.3               | 2.89             | 133.71          | 127.02               | 109.15    |
| World Ex. UK (163)                                                                                                                                                                   | 121.48          | -0.9           | 113.43               | 95.52     | 99.05    | 102.96               | -0.9               | 2.87             | 120.35          | 114.59               | 94.95     |
| World Ex. Japan (251)                                                                                                                                                                | 139.51          | +0.8           | 130.29               | 109.71    | 113.77   | 125.66               | +0.3               | 2.89             | 133.71          | 127.02               | 109.15    |
| World Ex. Japan (1733)                                                                                                                                                               | 158.10          | +1.0           | 148.26               | 123.12    | 123.76   | 151.16               | +0.4               | 3.28             | 157.38          | 149.70               | 125.49    |
| The World Index (2206)                                                                                                                                                               | 138.49          | +0.8           | 130.27               | 109.68    | 111.73   | 126.87               | +0.3               | 2.66             | 136.36          | 131.70               | 109.20    |
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| Latest prices were unavailable for this edition. Madrid market closed December 5.                                                                                                    |                 |                |                      |           |          |                      |                    |                  |                 |                      |           |